AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. Hrg. 110–544

UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

HEARING

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

OF THE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JANUARY 24, 2008

Available via http://www.gpoaccess.gov/congress/index.html

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

S. Hrg. 110–544

UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

HEARING

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

OF THE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JANUARY 24, 2008

Available via http://www.gpoaccess.gov/congress/index.html

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

41–447 PDF WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

JOSEPH I. LIEBERMAN, Connecticut, *Chairman*

CARL LEVIN, Michigan
DANIEL K. AKAKA, Hawaii
THOMAS R. CARPER, Delaware
MARK PRYOR, Arkansas
MARY L. LANDRIEU, Louisiana
BARACK OBAMA, Illinois
CLAIRE McCASKILL, Missouri
JON TESTER, Montana

SUSAN M. COLLINS, Maine
TED STEVENS, Alaska
GEORGE V. VOINOVICH, Ohio
NORM COLEMAN, Minnesota
TOM COBURN, Oklahoma
PETE V. DOMENICI, New Mexico
JOHN WARNER, Virginia
JOHN E. SUNUNU, New Hampshire

MICHAEL L. ALEXANDER, *Staff Director*
BRANDON L. MILHORN, *Minority Staff Director and Chief Counsel*
TRINA DRIESSNACK TYRER, *Chief Clerk*

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

CARL LEVIN, Michigan, *Chairman*

THOMAS R. CARPER, Delaware
MARK L. PRYOR, Arkansas
BARACK OBAMA, Illinois
CLAIRE McCASKILL, Missouri
JON TESTER, Montana

NORM COLEMAN, Minnesota
TOM COBURN, Oklahoma
PETE V. DOMENICI, New Mexico
JOHN WARNER, Virginia
JOHN E. SUNUNU, New Hampshire

ELISE J. BEAN, *Staff Director and Chief Counsel*
ZACHARY I. SCHRAM, *Counsel*
MARK L. GREENBLATT, *Staff Director and Chief Counsel to the Minority*
MICHAEL P. FLOWERS, *Counsel to the Minority*
MELISSA STALDER, *Associate Counsel to the Minority*
MARY D. ROBERTSON, *Chief Clerk*

CONTENTS

	Page
Opening statements:	
Senator Levin	1
Senator Coleman	8
Senator Coburn	17

WITNESSES

THURSDAY, JANUARY 24, 2008

Hon. Zalmay Khalilzad, U.S. Ambassador to the United Nations, New York, New York	18
Hon. Mark D. Wallace, U.S. Ambassador for United Nations Management and Reform, New York, New York	21
Thomas Melito, Director, International Affairs and Trade, U.S. Government Accountability Office, Washington, DC	36
Frederick Tipson, Director, Liaison Office, United Nations Development Programme, Washington, DC, accompanied by David Lockwood, Deputy Director, Regional Bureau for Asia and the Pacific, United Nations Development Programme, New York, New York, and David Morrison, Director of Communications, United Nations Development Programme, New York, New York	43
Robert Benson, Director, United Nations Ethics Office, New York, New York	45

ALPHABETICAL LIST OF WITNESSES

Benson, Robert:	
Testimony	45
Prepared statement	107
Khalilzad, Hon. Zalmay:	
Testimony	18
Prepared statement	63
Lockwood, David:	
Testimony	43
Briefing statement with attachments	87
Melito, Thomas:	
Testimony	36
Prepared statement	68
Morrison, David:	
Testimony	43
Briefing statement with attachments	87
Tipson, Frederick:	
Testimony	43
Briefing statement with attachments	87
Wallace, Hon. Mark D.:	
Testimony	21

EXHIBITS

1a 2007 Report of the Board of Auditors	111
1b 2004 UNDP Internal Audit	139
2a Letter from Robert Benson, Director of UN Ethics Office, dated August 17, 2007, to Kemal Dervis, UNDP Administrator, regarding Ethics Office jurisdiction	196
2b Letter from Robert Benson, Director of UN Ethics Office, dated August 17, 2007, to Artjon Shkurtaj, regarding June 5, 2007, request for protection from retaliation	198

Page

3a *Secretary-General's bulletin—Ethics Office—establishment and terms of reference,* dated December 30, 2005, issued by Secretary-General Kofi Annan 199
3b *Secretary-General's bulletin—United Nations system-wide application of ethics: separately administered organs and programmes,* dated November 30, 2007, issued by Secretary-General Ban Ki-moon 202
4. *UNDP DPRK Organizational Chart,* based on chart from a 2004 UNDP audit report, redacted by Permanent Subcommittee on Investigations 206
5. *Excerpt from 2004 UNDP Internal Audit Showing Breakdown of NEX/DEX Modalities,* chart from 2004 UNDP audit report 207
6. USUN Letter to UNDP, dated January 16, 2007, regarding UNDP operations in North Korea 208
7. State Department email to Senate Staff, dated June 2007, attaching *May 23 Briefing by Ambassador Wallace Regarding UNDP Activities in North Korea* 212
8. *North Korea Transaction Using I.F.T.J.,* chart prepared by the Permanent Subcommittee on Investigations, based on excerpt of report prepared by Ernst & Young 215
9. BDA Record of IFTJ Application for Wire Transfer to vendor on behalf of UNDP 216
10. *Summary of Transactions from IFTJ to DPRK Embassy Accounts for Purchases of Buildings Purportedly Related to UNDP Activity,* chart prepared by the Permanent Subcommittee on Investigations 217
11. BDA Record of Nine IFTJ Applications for Wire Transfers to DPRK Embassy Accounts 218
12. USUN Letter to UNDP, dated June 7, 2007, regarding Zang Lok Trading Co. 227
13. Excerpts of BDA Record of Wire Transfer from UNDP to Zang Lok Trading Co., dated April 16, 2002, and May 28, 2004 231
14. Business Cards of IFTJ and FTB employees, dated July 24, 2001 232
15a Letter Identifying Employee 3 as an Employee of International Trade & Finance Joint Co. (Dated July 31, 2003) 233
15b Excerpt of Fax Identifying Employee 3 as a Senior Member of a Delegation from FTB (Dated September 2003) 234
16. Letter from Kemal Dervis, UNDP Administrator, dated January 22, 2007, providing information to UNDP Executive Board regarding its operations in North Korea 235
17. Letter from Ambassador Pak Gil Yon, DPRK Permanent Representative to the United Nations, dated February 13, 2007, to U.N. Secretary-General Ban Ki-moon, regarding the external audit of UNDP operations in North Korea 240
18a JPMorgan Chase wire transfer documents dated 8/21/02, 8/30/02, and 9/9/02 241
18b Charts prepared by the Permanent Subcommittee on Investigations regarding Bank of America wire transfers 244
19. Elsingor SA Packing List for 29 books procured by UNDP for DPRK, March 2007 246
20. Responses to supplemental questions for the record from Senators Carl Levin and Norm Coleman to The Honorable Zalmay Khalilzad, United States Ambassador to the United Nations 249
21. Responses to supplemental questions for the record from Senator Tom Coburn to The Honorable Zalmay Khalilzad, United States Ambassador to the United Nations 257
22. Responses to supplemental questions for the record submitted to Thomas Melito, Director, International Affairs and Trade, U.S. Government Accountability Office 268
23. Responses to supplemental questions for the record submitted to Frederick Tipson, Director, Liaison Office, United Nations Development Programme 292
24. Responses to supplemental questions for the record from Senator Tom Coburn to The Honorable Mark Wallace, United States Ambassador for United Nations Management and Reform 304
Staff Report 318

UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

THURSDAY, JANUARY 24, 2008

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:05 a.m., in Room SD–342, Dirksen Senate Office Building, Hon. Carl Levin, Chairman of the Subcommittee, presiding.

Present: Senators Levin, Coleman, and Coburn.

Staff Present: Elise J. Bean, Staff Director and Chief Counsel; Mary D. Robertson, Chief Clerk; Zachary I. Schram, Counsel; Gina Reinhardt, Congressional Fellow; Mark L. Greenblatt, Staff Director and Chief Counsel to the Minority; Michael P. Flowers, Counsel to the Minority; Melissa Stalder, Associate Counsel to the Minority; Adam Hark, Law Clerk; Jonathan Port, Intern; Adam Pullano, Intern; John Kim, Intern; Trey Hicks and Katy French (Sen. Coburn); and Jon Scanlon (Sen. McCaskill).

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Good morning, everybody. In March 2007, the United Nations Development Program (UNDP), took the unprecedented step of suspending its operations in the Democratic People's Republic of Korea—North Korea—and in April, the UNDP withdrew from the country entirely because North Korea had declined to allow the UNDP to impose tighter controls on its activities to increase transparency and accountability. Today's hearing will examine some of the management and operational deficiencies in the UNDP operations in North Korea, as well as concerns about a UNDP audit policy so restricted in its dissemination that program oversight was impeded. The Staff Report also reviewed weak whistleblower protections that may discourage UNDP employees from speaking out about problems.

The UNDP is one of the world's principal humanitarian agencies. It conducts development work in 166 countries, spending $5 billion per year of its own funds and managing another $4 billion or so from other U.N. entities and donors. UNDP priorities include reducing poverty, dealing with crises like floods and earthquakes, and combating health threats. It operates in some of the world's most challenging countries, working to advance humanitarian aims even under repressive regimes. The UNDP is often walking a tightrope and often it succeeds.

UNDP activities are in America's national interest. The U.S. Department of State's 2006 Congressional Budget Justification states that "the UNDP's programs are closely aligned with U.S. strategic interests." As we speak, for example, UNDP personnel are risking their lives in support of U.S. reconstruction efforts in Iraq and Afghanistan. They are working on the ground to build better government rule in Sudan, helping rush aid to flood and landslide victims on the island of Java in Indonesia. To support these and other critical humanitarian efforts, in 2005 the United States contributed over $240 million to UNDP operations.

Last year, allegations of mismanagement involving UNDP operations in North Korea erupted in the press. Some press accounts reported allegations that the UNDP might have supplied upward of $100 million in hard currency to North Korea and that $2.7 million in UNDP money had been transferred to North Korean embassies abroad, among other allegations. Accusatory letters were exchanged between the U.S. Mission to the United Nations and UNDP, straining relations between the two.

While some press reports were overblown, UNDP operations in North Korea raise legitimate concerns. It is our hope that this hearing will address the serious and complex issues involved when important humanitarian work is undermined by local government restrictions, and at what point humanitarian aid—so important to a poor country—should be abandoned due to an uncooperative and repressive regime.

At Senator Coleman's request last year, the Subcommittee launched this inquiry into UNDP operations in North Korea. Our staffs interviewed people from the State Department, UNDP, other U.N. offices, GAO, and others. Our staffs reviewed extensive documentation, including reports, correspondence, e-mails, financial spreadsheets, and bank records.

The Subcommittee also obtained copies of three nonpublic audit reports for the years 1999, 2001, and 2004, which had been prepared for the UNDP on its North Korean operations. These reports were obtained from confidential sources because, under UNDP policy, not even UNDP Executive Board members are entitled to copies of program audits. We also reviewed a 2007 audit report which UNDP commissioned in response to the allegations and released to the public. All four audits provided valuable information, perspective, and context.

In addition, the Subcommittee staff met twice in New York with senior officials from the North Korean Mission to the United Nations and had, frankly, a surprisingly open exchange about the allegations at issue today. In my experience, direct meetings between North Korean and congressional personnel are rare, and we would like to acknowledge the North Koreans' responses to our inquiries. Their information contributed to our understanding of what transpired.

The information obtained from the Subcommittee investigation, as well as the staff findings and recommendations, are laid out in a Staff Report being released in connection with today's hearing. I will focus here on just a few of the highlights.

First, it is clear that UNDP operations in North Korea did not follow standard UNDP policy and practice and were undermined by

management and operational deficiencies. Many of these deviations from UNDP policy and practice were the result of demands made by the North Korean Government. For example, North Korea insisted and, contrary to UNDP policy and practice, UNDP agreed to hire as its local staff only persons selected by the North Korean Government. UNDP also agreed to pay their salaries and expenses with convertible currency, such as U.S. dollars or euros, rather than use the local currency, which was the non-convertible North Korean won (currency). Moreover, UNDP made the payments not to the individuals doing the work, but to the North Korean Government itself, even after suspecting that the North Korean Government, in the words of one UNDP official, was "skimming" money from the payments.

The North Korean Government also insisted that the UNDP conduct its financial transactions using the North Korean state-owned Foreign Trade Bank, even though UNDP was not allowed on the bank premises and was forced to use North Korean personnel to execute the bank paperwork. That arrangement undermined UNDP fiscal control over its own funds. Still another problem was that UNDP officials were not allowed to visit local project sites without prior notice to, and in the company of, North Korean officials. Those project visits were not the independent inspections called for by UNDP policy and practice.

After the U.S. State Department complained to the Executive Board about UNDP practices in North Korea, UNDP attempted to install better safeguards on its program there. These safeguards would have required local payments to be made in the North Korean won, allowed local staff to be hired directly by UNDP, and given UNDP greater access to inspect project sites. But North Korea declined to accept the new conditions, and UNDP withdrew from the country.

Before that, UNDP had operated in North Korea under these and other staffing, fiscal, and administrative constraints. UNDP personnel told the Subcommittee that, despite the constraints, it was able to accomplish important humanitarian aims in its North Korean work. It designed agricultural, health, and economic development projects and verified that they took place as intended.

When asked about press reports on the transfer of upward of $100 million in hard currency to North Korea over 10 years, UNDP indicated that figure was impossible since, over the 10 years, UNDP's total expenditures in North Korea did not exceed about $33 million. UNDP explained that the $33 million paid for UNDP's own expenses as well as North Korean development costs. UNDP estimated that, of the $33.5 million spent, only about $400,000 was transferred to the North Korean Government account designated for use on development projects. About $6 million was spent by the UNDP for local staff salaries, rent, and office costs, again, over 10 years. While the Subcommittee staff was unable to confirm these estimates through its own analysis since key financial records remained in Pyongyang, a UNDP-commissioned audit is now underway to do just that, and there appears to be little reason to believe that the figure of upward of $100 million that appeared in the press will be sustained.

The UNDP was itself responsible for some of the confusion surrounding its operations in North Korea. When U.S. diplomatic personnel asked about its North Korean operations in 2006, the UNDP initially refused to provide detailed information and denied access to the relevant audit reports. Later, UNDP allowed the United States to see the audit reports but permitted U.S. personnel to review them on a single occasion without allowing copies to be made. This overly restrictive audit policy impedes oversight and encourages inaccuracies.

This Subcommittee obtained copies of the UNDP audit reports and used the information to develop a better understanding of UNDP operations in North Korea. We have seen no reason for the audit reports to have been kept secret. Inaccessible U.N. audit reports are a perennial sore point that continues to strain U.S.-U.N. relations and casts suspicion, often needlessly, on U.N. activities.

UNDP Administrator Kemal Dervis has proposed that the UNDP Executive Board grant access to UNDP audits on a routine basis to UNDP Executive Board members. His proposal has limitations—it applies only to future audits, allows only in-person interviews, and does not allow photocopies—but it is a step forward. I urge the UNDP Executive Board to allow unfettered audit access to all UNDP financial and management audits, not only for board members, but also all U.N. member states and the public.

Another problem to be examined today involves the UNDP's treatment of the key employee who spoke out about the problems in North Korea, Artjon Shkurtaj, former Operations Manager of the UNDP office in Pyongyang. The UNDP's treatment of Mr. Shkurtaj is the latest blow to U.N. whistleblower protections, and it does not inspire confidence in UNDP's willingness to hear negative reports about its operations.

The UNDP's overly restrictive audit policy and weak whistleblower protections contributed to the concerns about its North Korean operations. UNDP was also the victim of misleading actions by North Korea. The Subcommittee investigation obtained bank records showing, for example, that over a 6-month period from April to September 2002, North Korea deposited a total of $2.7 million of its own funds into a bank account that was supposed to be used exclusively for UNDP projects. North Korea then moved its funds from that UNDP-related account to a bank account in Macau in the name of a Chinese company called International Finance and Trade Joint Company, which acted as a conduit for North Korea. IFTJ transferred the funds it received from North Korea to other accounts around the world controlled by North Korea, each time referencing the UNDP program in the accompanying wire transfers even though the funds had nothing to do with UNDP activity. Why would North Korea deposit its own funds into a bank account that was supposed to only contain UNDP funds?

When asked about these transactions by the Subcommittee, North Korean officials acknowledged the transfers. They said that the 2002 speech by President Bush in which he said North Korea was part of an "axis of evil" raised fears that North Korean accounts would be frozen. North Korean officials told the Subcommittee that the funds they transferred were for operating diplomatic missions in the United States and Europe. They said that

the North Korean Ministry of Foreign Affairs used the UNDP-related account as a secure channel for transferring its own funds, apparently because it was less likely to incur international scrutiny and be frozen.

North Korea did not alert UNDP to its actions, and UNDP told the staff that it had no idea, until shown the bank records by our staff, that North Korea had deposited its own funds into the bank account set up to receive UNDP funds for UNDP development projects. UNDP had no access to the account records, since the account was under the sole control of the North Korean Government. UNDP also was surprised to learn that the Foreign Trade Bank had routed some outgoing UNDP funds through the same IFTJ bank account in Macau, and that two U.N. payments totaling about $50,000 that had been made by UNDP on behalf of other U.N. agencies had gone to an entity that the State Department later linked to North Korea weapons sales. The Staff Report provides greater detail about these incidents and recommends new controls to prevent similar problems in the future, including by enabling UNDP to monitor account activity of any host country account set up to receive UNDP funds.

The UNDP is an important U.S. ally. Its mission coincides with our interest, as well as our hopes for a more secure and prosperous world. One key question raised by this investigation is whether UNDP operations that help the people living under repressive regimes should always just be ended, as they were in North Korea, when the government bypasses UNDP controls designed to ensure transparency and accountability.

I would like to thank all of the parties for their cooperation with this investigation. UNDP, in particular, patiently answered many Subcommittee inquiries. The Subcommittee fully recognizes the privileges and immunities of the United Nations, and we appreciate the extent of its voluntary cooperation as well as its allowing the UNDP to brief the Subcommittee here today.

We live in dangerous times, and so many of the threats we face—terrorism, climate change, infectious disease—require an international response. The United Nations, including UNDP, is in a position to help confront those threats. But transparency and accountability are essential to ensure that their aims are advanced. It is why we need unfettered audit reports, strong whistleblower protections, and the willingness to take a hard look at U.N. operations worldwide. Again, I commend Senator Coleman for his initiative in this matter. I thank our staffs not only for a thorough product but, as always, for working in a bipartisan way to improve and strengthen the United Nations.

[The prepared statement of Senator Levin follows:]

PREPARED STATEMENT OF SENATOR LEVIN

In March 2007, the United Nations Development Program (UNDP) took the unprecedented step of suspending its operations in the Democratic People's Republic of Korea (DPRK), commonly known as North Korea. In April, the UNDP withdrew from the country entirely, because North Korea had declined to allow UNDP to impose tighter controls on its activities to increase transparency and accountability. Today's hearing will examine some of the management and operational deficiencies in the UNDP operations in North Korea as well as concerns about a UNDP audit policy so restricted in its dissemination that program oversight was impeded. The

Staff Report also reviewed weak whistleblower protections that may discourage UNDP employees from speaking out about problems.

The U.N. Development Programme is one of the world's principal humanitarian agencies. It conducts development work in 166 countries, spending $5 billion per year of its own funds and managing another $4 billion or so for other U.N. entities and donors. UNDP priorities include reducing poverty, dealing with crises like floods and earthquakes, and combating health threats. It operates in some of the world's most challenging countries, working to advance humanitarian aims even under repressive regimes. The UNDP is often walking a tightrope. Often it succeeds.

UNDP activities are in America's national interest. The U.S. Department of State's 2006 Congressional Budget Justification states that "the UNDP's programs are closely aligned with U.S. strategic interests." As we speak, for example, UNDP personnel are risking their lives in support of U.S. reconstruction efforts in Iraq and Afghanistan. They are working on the ground to build better government rule in Sudan, and helping rush aid to flood and landslide victims on the island of Java in Indonesia. To support these and other critical humanitarian efforts, in 2005, the United States contributed over $240 million to UNDP operations.

Last year, allegations of mismanagement involving UNDP operations in North Korea erupted in the press. Some press accounts reported allegations that the UNDP might have supplied upward of $100 million in hard currency to the North Korea and that $2.7 million in UNDP money had been transferred to North Korean embassies abroad, among other allegations. Accusatory letters were exchanged between the United States Mission to the United Nations and UNDP, straining relations between the two.

While some press reports were overblown, UNDP operations in North Korea raise legitimate concerns. It is our hope that this hearing will address the serious and complex issues involved when important humanitarian work is undermined by local government restrictions, and at what point humanitarian aid—so important to a poor country—should be abandoned due to an uncooperative and repressive regime.

At Senator Coleman's request last year, the Subcommittee launched this inquiry into UNDP operations in North Korea. Our staffs interviewed people from the State Department, UNDP, other U.N. offices, GAO, and others. Our staffs reviewed extensive documentation, including reports, correspondence, emails, financial spreadsheets, and bank records.

The Subcommittee also obtained copies of three nonpublic audit reports for the years 1999, 2001, and 2004, which had been prepared for the UNDP on its North Korean operations. These reports were obtained from confidential sources because, under UNDP policy, not even UNDP Executive Board members are entitled to copies of program audits. We also reviewed a 2007 audit report which UNDP commissioned in response to the allegations and released to the public. All four audits provided valuable information, perspective, and context.

In addition, the Subcommittee staff met twice in New York with senior officials from the North Korean Mission to the United Nations and had, frankly, a surprisingly open exchange about the allegations at issue today. In my experience, direct meetings between North Korean and Congressional personnel are rare, and we would like to acknowledge the North Koreans' responses to our inquiries. Their information contributed to our understanding of what transpired.

The information obtained from the Subcommittee investigation, as well as the staff findings and recommendations, are laid out in a Staff Report being released in connection with today's hearing. I will focus here on a few highlights.

First, it is clear that UNDP operations in North Korea did not follow standard UNDP policy and practice, and were undermined by management and operational deficiencies. Many of these deviations from UNDP policy and practice were the result of demands made by the North Korean government. For example, North Korea insisted and, contrary to UNDP policy and practice, UNDP agreed to hire as its local staff only persons selected by the North Korean government. UNDP also agreed to pay their salaries and expenses with convertible currency, such as U.S. Dollars or Euros, rather than use the local currency, which was the non-convertible North Korean Won. Moreover, UNDP made the payments not to the individuals doing the work, but to the North Korean government itself, even after suspecting that the regime, in the words of one UNDP official, was "skimming" money from the payments.

The North Korean government also insisted that UNDP conduct its financial transactions using the North Korean state-owned Foreign Trade Bank, even though UNDP wasn't allowed on the bank premises and was forced to use North Korean personnel to execute the bank paperwork. That arrangement undermined UNDP fiscal control over its funds. Still another problem was that UNDP officials were not allowed to visit local project sites without prior notice to, and in the company of,

North Korean officials. Those project visits weren't the independent inspections called for by UNDP policy and practice.

After the U.S. State Department complained to the Executive Board about UNDP practices in North Korea, UNDP attempted to install better safeguards on its program there. These safeguards would have required local payments to be made in the North Korean Won, allowed local staff to be hired directly by UNDP, and given UNDP greater access to inspect project sites. But North Korea declined to accept the new conditions, and UNDP withdrew from the country.

Before that, UNDP had operated for years in North Korea under these and other staffing, fiscal, and administrative constraints. UNDP personnel told the Subcommittee that, despite the constraints, it was able to accomplish important humanitarian aims in its North Korean work. It designed agricultural, health, and economic development projects, and verified that they took place as intended.

When asked about press reports on the transfer of upward of $100 million in hard currency to North Korea over 10 years, UNDP indicated that figure was impossible since, over the ten years, UNDP's total expenditures in North Korea did not exceed about $33.5 million. UNDP explained that the $33.5 million paid for UNDP's own expenses as well as North Korean development costs. UNDP estimated that, of the $33.5 million spent, only about $400,000 was transferred to the North Korean government account designated for use on development projects. About $6 million was spent by the UNDP for local staff salaries, rent, and office costs, again, over 10 years. While the Subcommittee staff was unable to confirm these estimates through its own analysis, since key financial records remained in Pyongyang, a UNDP commissioned audit is now underway to do just that, and there appears to be little reason to believe that the figure of upward of $100 million that appeared in the press will be sustained.

The UNDP was itself responsible for some of the confusion surrounding its operations in North Korea. When U.S. diplomatic personnel asked about its North Korean operations in 2006, the UNDP initially refused to provide detailed information and denied access to the relevant audit reports. Later, UNDP allowed the United States to see the audit reports but permitted U.S. personnel to review them on a single occasion without allowing copies to be made. This overly restrictive audit policy impedes oversight and encourages inaccuracies.

This Subcommittee obtained copies of the UNDP audit reports and used the information to develop a better understanding of UNDP operations in North Korea. We have seen no reason for the audit reports to have been kept secret. Inaccessible U.N. audit reports are a perennial sore point that continues to strain U.S.-U.N. relations and casts suspicion, often needlessly, on U.N. activities.

UNDP Administrator Kemal Dervis has proposed that the UNDP Executive Board grant access to UNDP audits on a routine basis to UNDP Executive Board members. His proposal has limitations—it applies only to future audits, allows only in-person reviews, and does not allow photocopies—but it is a step forward. I urge the UNDP Executive Board to allow unfettered audit access to all UNDP financial and management audits, not only for Board members, but also all U.N. member states and the public.

Another problem to be examined today involves the UNDP's treatment of the key employee who spoke out about the problems in North Korea, Artjon Shkurtaj, former Operations Manager of the UNDP office in Pyongyang. Mr. Shkurtaj blew the whistle on what he believed were management and operational deficiencies in North Korea. He reported those problems to his superiors and eventually to Ambassador Wallace at the U.S. Mission to the United Nations. Rather than support him, UNDP decided not to renew his contract.

Given the pending Independent Investigative Review now examining his case, this is not the occasion to consider all of Mr. Shkurtaj's allegations or the details of his treatment by UNDP. It is appropriate, however, to express concern about UNDP whistleblower protections in general. After his contract ended, Mr. Shkurtaj filed a complaint with the recently created U.N. Ethics Office alleging UNDP retaliation. In an August 2007 letter, the U.N. Ethics Office wrote that Mr. Shkurtaj had established "a prima facie case of retaliation," but concluded that the Office lacked jurisdiction to resolve his case. The letter noted that an Ethics Office review would have been in the "best interests of the United Nations," but UNDP had declined the Office's request to voluntarily submit the Shkurtaj matter for review. Later, UNDP set up an ad hoc review team that is now considering Mr. Shkurtaj's claim of retaliation.

UNDP's refusal to submit the Shkurtaj matter to the Ethics Office for review undermined the status and authority of that Office and undermined confidence that U.N. personnel can blow the whistle on waste, fraud, or abuse without fear of retribution. The Secretary General has since directed all U.N. agencies to establish

their own ethics offices and created an Ethics Committee to encourage U.N.-wide ethics rules. We will be discussing that effort today. The bottom line, however, is that UNDP's treatment of Mr. Shkurtaj is the latest blow to U.N. whistleblower protections, and it doesn't inspire confidence in UNDP's willingness to hear negative reports about its operations.

The UNDP's overly restrictive audit policy and weak whistleblower protections contributed to the concerns about its North Korean operations. UNDP was also the victim of misleading actions by North Korea. The Subcommittee investigation obtained bank records showing, for example, that over a six month period from April to September 2002, North Korea deposited a total of $2.7 million of its own funds into a bank account that was supposed to be used exclusively for UNDP projects. North Korea then moved its funds from that UNDP-related account to a bank account in Macau in the name of a Chinese company called International Finance and Trade Joint Company, which has acted as a conduit for North Korea. IFTJ transferred the funds it received from North Korea to other accounts around the world controlled by North Korea, each time referencing the UNDP program in the accompanying wire transfers even though the funds had nothing to do with UNDP activity. Why would North Korea deposit its own funds into a bank account that was supposed to only contain UNDP funds?

When asked about these transactions by the Subcommittee, North Korean officials acknowledged the transfers. They said that the 2002 speech by President Bush in which he said North Korea was part of an "axis of evil," raised fears that North Korean accounts would be frozen. North Korean officials told the Subcommittee that the funds they transferred were for operating diplomatic missions in the United States and Europe. They said that the North Korean Ministry of Foreign Affairs used the UNDP-related account as a secure channel for transferring its own funds, apparently because it was less likely to incur international scrutiny and be frozen.

North Korea did not alert UNDP to its actions, and UNDP told the Subcommittee that it had no idea, until shown the bank records by our staff, that North Korea had deposited its own funds into the bank account set up to receive UNDP funds for UNDP development projects. UNDP had no access to the account records, since the account was under the sole control of the North Korean government. UNDP also was surprised to learn that the Foreign Trade Bank had routed some outgoing UNDP funds through the same IFTJ bank account in Macao, and that two U.N. payments totaling about $50,000, that had been made by UNDP on behalf of other U.N. agencies, had gone to an entity that the State Department later linked to North Korea weapons sales. The Staff Report provides greater detail about these incidents and recommends new controls to prevent similar problems in the future, including by enabling UNDP to monitor account activity of any host country account set up to receive UNDP funds.

The UNDP is an important U.S. ally. Its mission coincides with our national interest, as well as our hopes for a more secure and prosperous world. One key question raised by this investigation is whether UNDP operations that help the people living under repressive regimes should always just be ended, as they were in North Korea, when the government bypasses UNDP controls designed to ensure transparency and accountability.

I would like to thank all of the parties for their cooperation with this investigation. UNDP, in particular, patiently answered many Subcommittee inquiries. The Subcommittee fully recognizes the privileges and immunities of the United Nations, and we appreciate the extent of its voluntary cooperation as well as its allowing the UNDP to brief the Subcommittee today.

We live in dangerous times. So many of the threats we face—terrorism, climate change, infectious disease—require an international response. The United Nations, including UNDP, is in a position to help confront those threats. But transparency and accountability are essential to ensure their aims are advanced. It's why we need unfettered audit reports, strong whistleblower protections, and the willingness to take a hard look at U.N. operations worldwide. Again, I commend Senator Coleman for his initiative in this matter and I thank our staff not only for a thorough product, but, as always, for working in a bipartisan way to improve and strengthen the United Nations.

Senator Coleman.

OPENING STATEMENT OF SENATOR COLEMAN

Senator COLEMAN. Thank you, Mr. Chairman.

As Chairman Levin noted, today's hearing examines management and transparency problems in the operations of the United

Nations Development Program (UNDP) in North Korea. At the outset, I want to express my sincere appreciation to Senator Levin and his staff for their support in this investigation. This bipartisan effort highlights the Subcommittee's most enduring and valuable contribution to American governance: The recognition that some matters are of such gravity that they transcend partisan politics and require apolitical, sober examination. This would not have been possible without your cooperation and leadership, Mr. Chairman, and I thank you.

Senator LEVIN. Thank you.

Senator COLEMAN. One of those issues that should transcend partisanship is our obligation to ensure that when American taxpayer dollars are used to fund any program, domestic or international, there is adequate transparency and accountability to avoid fraud, abuse, or mismanagement. Today, we examine the UNDP.

I would note at the outset that an effective United Nations is important to America's national security interests. When the U.N. operates transparently, efficiently and with accountability, it can make great progress on the most intractable problems facing the world. The UNDP, which is the largest development agency in the United Nations System, is a central part of that effort. Its mission is noble: Building democratic societies, reducing poverty, assisting in crisis recovery, protecting the environment, and curbing the AIDS epidemic around the world. Noble work, indeed.

However, if U.N. agencies like UNDP can be manipulated by belligerent regimes, Congress must re-examine the terms under which it funds the U.N.'s efforts. The evidence uncovered by the Subcommittee's investigation brings this obligation sharply into focus.

Over the course of the Subcommittee's inquiry, we have reviewed thousands of pages of documents, interviewed officials from the Departments of State, Commerce and Treasury, as well as current and former U.N. and UNDP personnel. I want to echo Senator Levin's gratitude to the UNDP for their willingness to be interviewed for dozens of hours. Subcommittee staff also sought out and met with representatives of the North Korean Government, who corroborated much of the evidence collected by the Subcommittee.

As the Chairman has noted, our investigation gathered evidence establishing the following facts:

First, there were a range of deficiencies in UNDP's managerial and transparency controls that left it vulnerable to manipulation by the North Korean regime.

Second, the North Korean Government engaged in deceptive financial transactions to move more than $2.7 million all around the world under the pretense of U.N. activities.

Third, more than $50,000 was transferred directly from UNDP to an entity that, according to a State Department letter, has ties to efforts by the North Korean regime to engage in weapons-related activities.

Each of these areas is discussed in greater detail in a Subcommittee Staff Report issued in conjunction with today's hearing.

As we review the evidence and examine UNDP operations, we should note that the United States pays much of the U.N.'s annual bills. We contribute hundreds of millions of American taxpayer dol-

lars to UNDP every year. For example, American taxpayer dollars funded UNDP to the tune of $247 million in 2005 alone. To be clear, that is on top of the over $1 billion the United States contributes to the U.N. Secretariat every year. We should keep these expenditures in mind as we explore the evidence. Let me turn to that evidence now.

The Subcommittee reviewed several management practices in UNDP's North Korea office and found that the North Korea operation suffered from certain significant deficiencies. These weaknesses related to a number of crucial activities, ranging from cash management to staffing. For instance, the North Korean Government forced UNDP to fill sensitive positions with North Korean officials chosen by the regime. As one UNDP official acknowledged, those employees were "effectively agents of the [North Korean] Government." In addition, UNDP was pressured by the North Koreans to make payments in hard currency—like U.S. dollars or euros—which the regime was desperate to obtain. Finally, the regime imposed severe restrictions that hindered UNDP's ability to monitor the very projects that it was funding.

Many of these practices we identified were inconsistent with UNDP policy and best practices. Some of these problems resulted from one central failure: UNDP never adopted formal, definitive protocols in its North Korean operations. Instead, it relied on a series of ad hoc arrangements cobbled together to accommodate North Korean sensitivities. UNDP agreed to forego formal agreements because the North Koreans resisted signing them, and UNDP believed it could operate without them.

However, the Subcommittee's investigation indicates that operating under these fluid arrangements with a totalitarian regime like North Korea left UNDP vulnerable to manipulation. Let's not forget that this is a brutal, oppressive regime that was starved for hard currency and willing to do whatever it takes to get it. And UNDP was well aware of that. Yet UNDP largely acquiesced to North Korea's demands in order to keep its development projects going.

These certainly are noble goals, but I fear that UNDP's good intentions led to a well-intentioned culture of laxity. In short, UNDP's desire to assist the North Korean people apparently overrode their need to take necessary precautions. In effect, UNDP operated in a Chernobyl-like environment with a hazmat suit made of mesh. Ostensibly it was covered, but in reality it was vulnerable.

Many of the Subcommittee's findings result from an analysis of UNDP's internal audits. Significantly, these audits were never intended to see the light of day. The Chairman has noted the great concerns we have here in this body with the inability of member states of this country to be able to review those audits. Even though the United States is among a handful of countries that provide the bulk of funding for UNDP, the U.S. Government is forbidden from reading UNDP audits. Member states, especially large donors like the United States, should have access to U.N. audits. Both donors and recipients of aid money have a stake in ensuring that U.N. Funds and Programs are managed in an efficient, transparent manner. The U.N.'s refusal to share audits with its donors gives the impression that the U.N. has a "Keep your wallets open,

and your mouths shut" stance toward the rest of the world. That stance is antithetical to the concepts of transparency and accountability. Indeed, UNDP rightly preaches transparency and accountability to the developing nations that it is assisting. It seems that UNDP should practice what it preaches.

After speaking with UNDP's Administrator, Kemal Dervis, about this very issue this week, I am confident that UNDP will take some strides to improve their audit release policy. If UNDP fails to make substantial changes in policy, however, Congress should seriously consider changing the way we donate American tax dollars to the UNDP and any other U.N. agencies that do not share their audits with donors and member states.

Let me talk a little bit about whistleblower protection. No operation can achieve transparency and accountability when its employees cannot report wrongdoing without fear of retaliation. A recent UNDP story makes that abundantly clear. A central figure in this inquiry, which the Chairman has noted, is Artjon Shkurtaj, the former Operations Manager in UNDP's North Korean offices. It was Mr. Shkurtaj who first reported concerns with UNDP's North Korea program, and without his willingness to speak up and identify potential problems inside UNDP, none of these issues would have come to light. After he spoke out about the questionable practices, Mr. Shkurtaj was effectively terminated by the UNDP. His contract was not continued. He has alleged that this was retaliation for speaking out, that he was blacklisted because he blew the whistle.

While the Subcommittee will not address that particular matter today, his story exposed a gaping hole in the U.N. ethics regime. When the U.N. created the Ethics Office in the wake of the Oil-for-Food scandal, it appeared to be a step in the right direction. This highly touted reform, however, was largely eviscerated in its first real test—Mr. Shkurtaj's complaint against UNDP. In response to Mr. Shkurtaj's claim, UNDP argued that the Ethics Office covered only the U.N. Secretariat and not U.N. Funds and Programs like UNDP. The Ethics Office determined that Mr. Shkurtaj did, in fact, make a prima facie case of retaliation, but ultimately it agreed with UNDP, concluding that it did not have jurisdiction over anything but the Secretariat. That ruling undermined the whistleblower protection policies for thousands of employees in the U.N.'s Funds and Programs. In short, that decision gutted the U.N.'s signature management reform.

It goes without saying that a strong whistleblower protection policy will strengthen an organization in the long run. That is why I sponsored legislation that conditions UNDP funding on fair and effective whistleblower protection policies. The Secretary-General recently issued a bulletin to broaden the U.N.'s ethics rules and expand the whistleblower protections. That is certainly encouraging. The proof, however, is in the pudding, and I look forward to hearing from our witnesses and briefers from the U.N. about whether these newly announced measures are adequate and are in place.

Beyond the management and oversight deficiencies, the Subcommittee has obtained evidence establishing that the North Korean Government engaged in deceptive financial transactions under the guise of United Nations activity. In particular, the Sub-

committee obtained wire transfers and other banking records that document nine transfers, in which the North Korean Government moved a total of $2.72 million from its accounts to accounts in Western banks. The banking records indicate that the North Koreans routed the transactions through a front company in Macau and suggested that the transfers were for the "purchase of buildings" in Canada, the United Kingdom, and France. What is most troubling of all, however, is that the North Korean regime invoked the name of the United Nations to give the transfers some legitimacy.

The Subcommittee has confirmed with UNDP and the North Korean Government that these transactions had absolutely nothing to do with U.N. activities. While it is unclear how the funds were ultimately used, these transactions illustrate how this rogue regime was able to move large amounts of funds out of North Korea and into the West's financial system, dropping the U.N. name as a cover story.

UNDP officials have advised this Subcommittee that they found these transactions deeply disturbing. They stated that they did not know of the transactions, and that none of its projects would entail the purchase of buildings in North America or Europe. While the funds do not appear and we do not know whether this is, in fact, UNDP money, the key is not the origin of the money in this particular instance but, rather, that there are loopholes in the system. UNDP itself has admitted that none of its controls could have caught this apparent misuse of its name by the North Korean regime.

These transactions represent a cause for alarm. The reason for the elaborate measures used to shield these transfers—such as the use of the front company, the bogus connection to the United Nations, the use of buildings or property purchases to justify large transfers—is clear: North Korea was trying to shield its financial maneuvers from scrutiny and give Kim Jong Il greater access to international financial institutions.

In fact, the North Koreans told us that quite clearly. As the Chairman has noted, the North Koreans informed the Subcommittee that, following President Bush's State of the Union Address in 2002, in which he included North Korea in the "axis of evil," that they feared that their assets would be frozen. So the regime sought secure paths to funnel its money to more secure accounts. The account related to the U.N. activity presented a safe route.

The ostensible connection to U.N. activities is perhaps the most troubling aspect of these discoveries. Officials from executive agencies have advised the Subcommittee that transactions involving U.N. entities would likely receive less scrutiny from bank regulators and bank compliance units who may simply assume that such transfers are in furtherance of U.N.-related activity. In effect, North Korea's bogus description of these transfers as related to UNDP activity is the financial equivalent of painting a Red Cross symbol on a Bradley fighting vehicle.

The significance is clear. Recently, the U.S. Government has been making overtures to the North Korean regime. Officials from the Federal Government recently met with North Korean officials to advise them on how they could re-enter the international finan-

cial system. Moreover, Congress may be asked to alter the laws currently prohibiting certain transactions from being conducted with North Korean entities; it is equally likely that Congress will be asked to increase funds for North Korean humanitarian, developmental, and nuclear monitoring projects. As Congress contemplates these moves, it would be irresponsible not to seek assurances that such matters are being addressed.

At the same time, UNDP must determine whether their name is being used elsewhere in connection with questionable activities. By definition, UNDP operates in countries that are in dire need of development assistance. In some instances, they are dealing with the worst, most untrustworthy regimes on the planet. It is deeply disturbing that there are no controls in place to prevent such manipulation of UNDP's presence. UNDP should take steps to ensure that its name and resources are not used as cover for non-U.N. activities. The United States should seek assurances from UNDP that its name, offices, and resources are not being used by outlaw or corrupt states to facilitate their financial shenanigans.

Unfortunately, these are not the only types of troubling transactions that the Subcommittee has uncovered. The Subcommittee has established that UNDP made payments totaling more than $50,000 to an entity that, according to a letter from a State Department official, has "ties to a North Korean entity that that has been designated [by the U.S. Government] as the main North Korean financial agent" for sales of weapons and missiles. The payments at issue are described more completely in a classified annex to the Subcommittee Staff Report, and for reasons of national security, we are precluded from further disclosure concerning those matters in an open hearing. Suffice it to say, however, that these transactions raise disturbing questions.

UNDP has responded that they made these payments on behalf of UNESCO, another U.N. agency operating in North Korea. While we have no evidence to the contrary, it is beside the point: Under no circumstances should U.N. funds be transferred to an entity connected with nefarious activity. U.N. agencies should adopt more aggressive measures to ensure that the vendor is not associated with illicit conduct.

The matters to be examined here today and in the Staff Report make clear both Congress's obligation to have accurate and complete information on the agencies it funds with U.S. taxpayer money, as well as the obligation of executive agencies to exercise appropriate oversight over multilateral bodies such as the United Nations. The evidence also demonstrates that UNDP should adopt stronger safeguards when operating in totalitarian regimes to ensure that it will not be vulnerable to manipulation by the host country.

I appreciate UNDP's hard work. They operate in the most difficult political and social environments on the globe and seek to improve the lives of the world's most downtrodden people. I share those objectives, and I am encouraged by the constructive dialogue that we have maintained with UNDP throughout this process. I look forward to continuing that constructive dialogue with the UNDP representatives, as well as our other witnesses today.

Thank you, Mr. Chairman.

[The prepared statement of Senator Coleman follows:]

PREPARED STATEMENT OF SENATOR COLEMAN

As Chairman Levin noted, today's hearing examines management and transparency problems in the operations of the United Nations Development Program (UNDP) in North Korea. At the outset, I want to express my sincere appreciation to Senator Levin and his staff for their support in this investigation. This bipartisan effort highlights the Subcommittee's most enduring and valuable contribution to American governance: the recognition that some matters are of such gravity that they transcend partisan politics and require apolitical, sober examination. This would not have been possible without your cooperation and leadership, Mr. Chairman, and I thank you.

One of those issues that should transcend partisanship is our obligation to ensure that American tax-dollars are not being used to harm American interests. Now, more than ever, the United States must balance two competing interests: its core duty to protect the American people from its enemies, on the one hand, and its moral obligation to lead the effort to improve the lives of the downtrodden in the under-developed world, on the other. These efforts need not conflict. In fact, in many situations, the goals work hand-in-hand—by helping the downtrodden, we simultaneously undermine their oppressors and empower them to transform their own countries into free—and non-threatening—members of the international community.

The United Nations is one of America's most important partners in this endeavor. When the U.N. operates transparently, efficiently and with accountability, it can make great progress on the most intractable problems facing the world. The United Nations Development Program, which is the largest development agency in the United Nations system, is a central part of that effort. Its mission is noble: building democratic societies, reducing poverty, assisting in crisis recovery, protecting the environment, and curbing the AIDS epidemic around the globe. Noble work, indeed.

However, if U.N. agencies like UNDP can be manipulated by belligerent regimes, Congress must re-examine the terms under which it funds the U.N.'s efforts. The evidence uncovered by the Subcommittee's investigation brings this obligation into sharp focus.

Over the course of the Subcommittee's inquiry, we have reviewed thousands of pages of documents, interviewed officials from the Departments of State, Commerce and Treasury, as well as current and former U.N. and UNDP personnel. I want to echo Senator Levin's gratitude to the UNDP for their willingness to be interviewed for dozens of hours. Subcommittee staff also sought out and met with representatives of the North Korean government, who corroborated much of the evidence collected by the Subcommittee.

Our investigation gathered evidence establishing the following facts:

- First, there were a range of deficiencies in UNDP's managerial and transparency controls that left it vulnerable to manipulation by the North Korean regime.
- Second, the North Korean government engaged in deceptive financial transactions to move more than $2.7 million all around the world under the pretense of U.N. activities.
- Third, more than $50,000 was transferred directly from UNDP to an entity that, according to a State Department letter, has "ties" to efforts by the North Korean regime to engage in weapons-related activities.Each of these areas is discussed in great detail in a Subcommittee staff report issued in conjunction with today's hearing.

As we review the evidence and examine UNDP operations, we should note that the United States pays much of the U.N.'s annual bills. We contribute hundreds of millions of American tax-dollars to UNDP every year—for example, American taxpayers funded UNDP to the tune of 247 million dollars in 2005 alone. To be clear, that is on top of the $1 billion the U.S. contributes to the U.N. Secretariat every year. We should keep these expenditures in mind as we explore the evidence. Let's turn to that evidence now.

MANAGERIAL AND TRANSPARENCY FAILURES

The Subcommittee reviewed several management practices in UNDP's North Korea office and found that the North Korea operation suffered from certain significant deficiencies. These weaknesses related to a number of crucial activities, ranging from cash management to staffing. For instance, the North Korean government forced UNDP to fill sensitive positions with North Korean officials chosen by the re-

gime. As one UNDP official acknowledged, those employees were "effectively agents of the [North Korean] government." In addition, UNDP was pressured by the North Koreans to make payments in hard currency—like U.S. dollars and Euros—which the regime was desperate to obtain. Finally, the regime imposed severe restrictions that hindered UNDP's ability to monitor the very projects that it was funding.

Many of the practices we identified were inconsistent with UNDP policy and best practices. Some of these problems resulted from one central failure: UNDP never adopted formal, definitive protocols in its North Korea operations. Instead, it relied on a series of ad hoc arrangements cobbled together to accommodate North Korean sensitivities. UNDP agreed to forgo formal agreements because the North Koreans resisted signing them, and UNDP believed it could operate without them.

However, the Subcommittee's investigation indicates that operating under these fluid arrangements with a totalitarian regime like North Korea left UNDP vulnerable to manipulation. Let's not forget that this is a brutal, oppressive regime that was starved for hard currency and willing to do whatever it takes to get it. And UNDP was well aware of that. Yet, UNDP largely acquiesced to North Korea's demands in order to keep its development projects going.

These are certainly noble goals, but I fear that UNDP's good intentions led to a well-intentioned culture of laxity. In short, UNDP's desire to assist the North Korean people apparently overrode their need to take necessary precautions. In effect, UNDP operated in a Chernobyl environment with a Haz-mat suit made of mesh—ostensibly it was covered, but in reality it was vulnerable.

Many of the Subcommittee's findings result from an analysis of UNDP's internal audits. Significantly, these internal audits were never intended to see the light of day. Even though the United States is among a handful of countries that provide the bulk of funding for UNDP, the U.S. Government is forbidden from reading UNDP's audits. Member-states, especially large donors like the US, should have access to the U.N.'s audits. Both donors and recipients of aid money have a stake in ensuring that funds and programs are managed in an efficient, transparent manner. The U.N.'s refusal to share audits with its donors gives the impression that the U.N. has a "Keep your wallets open, and your mouths shut" stance toward the rest of the world. That stance is antithetical to the concepts of transparency and accountability. Indeed, UNDP rightly preaches transparency and accountability to the developing nations that it is assisting—it seems that UNDP should practice what it preaches.

After speaking with UNDP's Administrator, Kemal Dervis, about this very issue earlier this week, I am confident that UNDP will take some strides to improve their audit-release policy. If UNDP fails to make a substantial change in policy, however, Congress should seriously consider changing the way we donate American tax-dollars to the UNDP and any other U.N. agencies that do not share their audits with donors and member states.

RETALIATION AND THE U.N.'S WHISTLEBLOWER PROTECTION POLICIES

No operation can achieve transparency and accountability when its employees cannot report wrongdoing without fear of retaliation. A recent UNDP story makes that abundantly clear. A central figure in this inquiry is Mr. Artjon Shkurtaj, the former Operations Manager in UNDP's North Korean offices. It was Mr. Shkurtaj who first reported concerns with UNDP's North Korea program, and without his willingness to speak up and identify potential problems inside UNDP, none of these issues would have come to light. After he spoke out about the questionable practices, Mr. Shkurtaj was effectively terminated by the UNDP. He has alleged that this was retaliation for speaking out—that he was blacklisted because he blew the whistle.

While the Subcommittee will not address that particular matter today, his story exposed a gaping hole in the U.N. ethics regime. When the U.N. created the Ethics Office in the wake of the Oil-For-Food scandal, it appeared to be a step in the right direction. This highly-touted reform, however, was largely eviscerated in its first real test—Mr. Shkurtaj's complaint against UNDP. In response to Mr. Shkurtaj's claim, UNDP argued that the Ethics Office covered only the U.N. Secretariat and not funds and programs like UNDP. The Ethics Office determined that Mr. Shkurtaj did, in fact, make a prima facie case of retaliation—but ultimately it agreed with UNDP, concluding that it did not have jurisdiction over anything but the Secretariat. That ruling undermined the whistleblower protection policies for thousands of employees in the U.N.'s funds and programs. In short, that decision gutted the U.N.'s signature management reform.

It goes without saying that a strong whistleblower protection policy will strengthen an organization in the long run. That is why I sponsored legislation that condi-

tions UNDP funding on fair and effective whistleblower protection policies. The Secretary-General recently issued a bulletin to broaden the U.N.'s ethics rules and expand the whistleblower protections. That is certainly encouraging. The proof, however, is in the pudding, and I look forward to hearing from our witnesses and briefers from the U.N. about whether these newly-announced measures are adequate.

DECEPTIVE FINANCIAL PRACTICES BY THE NORTH KOREAN GOVERNMENT

Beyond the management and oversight deficiencies, the Subcommittee has obtained evidence establishing that the North Korean government engaged in deceptive financial transactions under the guise of United Nations activity. In particular, the Subcommittee obtained wire transfers and other banking records that document nine transfers, in which the North Korean government moved a total of $2.72 million from its accounts in Pyongyang to its accounts in Western banks. The banking records indicate that the North Koreans routed the transactions through a front company in Macau and suggested that the transfers were for the "purchase of building[s]" in Canada, the United Kingdom and France. What is most troubling of all, however, is that the North Korean regime invoked the name of the U.N. to give the transfers some legitimacy.

The Subcommittee has confirmed with UNDP and the North Korean government that these transactions had absolutely nothing to do with any U.N. activities. While it is unclear how the funds were ultimately used, these transactions illustrate how this rogue regime was able to move large amounts of funds out of North Korea and into the West's financial system, dropping the U.N. name as a cover story.

UNDP officials have advised this Subcommittee that they found these transactions deeply disturbing. They stated that they did not know of the transactions, and that none of its projects would entail the purchase of buildings in North America or Europe. While the funds do not appear to have included UNDP money, the key is not that the origin of the money in this particular instance, but rather that there are loopholes in the system—UNDP itself has admitted that none of its controls could have caught this apparent misuse of its name by the North Korean regime.

These transactions represent a cause for alarm. The reason for the elaborate measures used to shield these transfers—such as the use of the front company, the bogus connection to the U.N., the use of buildings or property purchases to justify large transfers—is clear: North Korea was trying to shield its financial maneuvers from scrutiny and give Kim Jong Il greater access to international financial institutions.

In fact, the North Koreans told us that quite clearly. North Korean officials informed the Subcommittee that, following President Bush's State of the Union Address in 2002, in which he included North Korea in the "Axis of Evil," their government feared that its assets would be frozen. So, the regime sought secure paths to funnel its money to more secure accounts. The account related to the U.N. activity presented a safe route.

The ostensible connection to U.N. activities is perhaps the most troubling aspect of these discoveries. Officials from executive agencies have advised the Subcommittee that transactions involving U.N. entities would likely receive less scrutiny from bank regulators and bank compliance units who may simply assume that such transfers are in furtherance of U.N.-related activity. In effect, North Korea's bogus description of these transfers as related to UNDP activity is the financial equivalent of painting a Red Cross symbol on a Bradley Fighting Vehicle.

The significance is clear. Recently, the U.S. Government has been making overtures to the North Korean regime. Officials from the federal government recently met with North Korean financial officials to advise them on how they could re-enter the international financial system. Moreover, Congress may be asked to alter the laws currently prohibiting certain transactions from being conducted with North Korean entities; it is equally likely that Congress will be asked to increase funds for North Korean humanitarian, developmental and nuclear monitoring projects. As Congress contemplates these moves, it would be irresponsible not to seek assurances that such matters are being addressed.

At the same time, UNDP must determine whether their name is being used elsewhere in connection with questionable activities. By definition, UNDP operates in countries that are in dire need of development assistance. They are dealing with the worst, most untrustworthy regimes on the planet. It is deeply disturbing that there are no controls in place to prevent such manipulation of UNDP's presence. UNDP should take steps to ensure that its name and resources are not used as cover for non-UN activities. The United States should seek assurances from UNDP that its

name, offices and resources are not being used by outlaw or corrupt states to facilitate their financial shenanigans.

WEAPONS PROLIFERATION TRANSFERS

Unfortunately, these are not the only type of troubling transactions that the Subcommittee has uncovered. The Subcommittee has established that UNDP made payments totaling more than $50,000 to an entity that, according to a letter from a State Department official, has "ties to a North Korean entity that that has been designated [by the U.S. Government] as the main North Korean financial agent" for sales of weapons and missiles. The payments at issue are described more completely in a classified annex to the Subcommittee staff report and, for reasons of national security, we are precluded from further disclosure concerning those matters in an open hearing. Suffice it to say, however, that these transactions raise disturbing questions.

UNDP has responded that it made these payments on behalf of UNESCO, another U.N. agency operating in North Korea. While we have no evidence to the contrary, it is beside the point: under no circumstances should U.N. funds be transferred to an entity connected with nefarious activity. U.N. agencies should adopt more aggressive measures to ensure that the vendor is not associated with illicit conduct.

The matters to be examined here today and in the staff report make clear both Congress's obligation to have accurate and complete information on the agencies it funds with U.S. taxpayer money, as well as the obligation of executive agencies to exercise appropriate oversight over multilateral bodies such as the United Nations. The evidence also demonstrates that UNDP should adopt stronger safeguards when operating in totalitarian regimes to ensure that it will not be vulnerable to manipulation by the host country.

Let me be clear: I appreciate UNDP's hard work—they operate in the most difficult political and social environments on the globe and seek to improve the lives of the world's most downtrodden people. I share those objectives and I am encouraged by the constructive dialogue we have maintained with UNDP throughout this process. I look forward to continuing that constructive discussion with the UNDP representatives, as well as our other witnesses today.

Senator LEVIN. Thank you, Senator Coleman.

Senator Coburn, do you have an opening statement.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Just a few short comments. First of all, thank you for the work of this Subcommittee in addressing this issue. As you know, I have been highly critical for the past 3 years of the lack of transparency at the United Nations, not just at UNDP but at the complete United Nations. And I also passed an amendment that passed the Senate 92–1 that said our funds ought to be contingent on transparency at the United Nations. Now, that was gutted in conference, and so that is not our policy. But I can assure you I plan to bring that back up each and every time we consider appropriations and authorizations for the United Nations.

There can be no accountability anywhere in the world where there is not transparency. UNDP has no transparency. It does not even allow the members sitting on its Executive Board to see the audits, let alone the Congress to see the audits. And so what we find is a very troubling position that the American taxpayer finds itself in: Sending money, a quarter of a billion dollars this last year, plus another $5.3 billion that we contribute, over 21 percent of the United Nations, of which we know 40 percent of it is fraudulent and wasted. We know that. And yet nobody wants to solve the problem. And whether it is for taxpayers here or those people we are intending to help throughout the world, without transparency we will accomplish nothing of permanent value. And when people question the integrity and the ethics of the process, no matter what our message is, it goes unheard.

And so I am going to redouble my effort in terms of requiring transparency, both through procedural positions on the floor and amendments, and I want to thank the staff of this Subcommittee for their diligent work. And so we cannot continue doing what we are doing. It cannot continue. The American people, as they find out about this, are sick. We are paying money to help the North Koreans sell missiles? I mean, that is in essence—when you boil it all down, that is what we are doing.

And so it has got to stop, and I look forward to the testimony of our witnesses. I thank both the Ambassador to the U.N. and Ambassador Wallace for their work and their efforts, and I look forward to the questioning.

Senator LEVIN. Thank you, Senator Coburn.

Now let me welcome our first panel to this morning's hearing. We are delighted to have with us Zalmay Khalilzad, the U.S. Ambassador to the United Nations, and Mark Wallace, the U.S. Ambassador for U.N. Management and Reform. We very much appreciate you both being with us this morning. We welcome you to the Subcommittee.

As you are aware, pursuant to Rule VI, all witnesses who testify before this Subcommittee are required to be sworn in. So at this time I would ask you both to please stand and raise your right hand. Do you swear that the testimony that you will give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Ambassador KHALILZAD. I do.

Ambassador WALLACE. I do.

Senator LEVIN. We are going to be using a timing system today. We would appreciate it if you could give your oral testimony in 5 minutes. Your entire testimony, of course, will be made part of the record. About a minute before the 5 minutes is up, there will be a red light—the red light comes at 5 minutes, but the light will change from green to yellow about a minute before the red light comes on.

Ambassador Khalilzad, why don't you go first. Again, let me give you a special welcome. It is always great to see you, whether it is here or in more difficult areas of the world—at least I think they are more difficult than the Subcommittee. But it is great to see you again.

TESTIMONY OF HON. ZALMAY KHALILZAD,[1] U.S. AMBASSADOR TO THE UNITED NATIONS, NEW YORK, NEW YORK

Ambassador KHALILZAD. Thank you. Mr. Chairman, Senator Coleman, and Senator Coburn, it is an honor to appear before this Subcommittee. I want to thank you for your leadership in looking into the issue of the North Korean and UNDP interaction. It is a very worthwhile investigation. Thank you also for the opportunity to discuss our efforts to promote transparency and accountability within the United Nations generally.

The United States, as one of the founders of this institution, designed the U.N. to maintain international peace and security, promote economic and social advancement, and reaffirm faith in fun-

[1] The prepared statement of Ambassador Khalilzad appears in the Appendix on page 63.

damental human rights. Though we all know its limitations, the U.N., including UNDP, serves our interests.

I have personally seen in Afghanistan and Iraq the significant contributions the United Nations can make when it has the right mandate and the right leadership in the field. The United States has a great interest in ensuring that the United Nations succeeds as an institution.

When I testified before the Senate Foreign Relations Committee on March 15 last year, as the President's nominee to serve as the U.S. Permanent Representative to the United Nations, I said that one of my principal goals in New York would be to promote effective, efficient, transparent, accountable, and ethical management of the United Nations. Since my arrival at the U.S. Mission last spring, my staff and I have been striving to fulfill this objective, focusing on a number of key U.N. management reforms in order to make the U.N. more effective and to ensure that the U.S. taxpayers receive value for the money we pay in assessed and voluntary contributions.

In my opening remarks today, I would like to cite four recent achievements related to reform that apply to the U.N. in general:

First, establishment of the Independent Audit Advisory Committee. In November of last year, the General Assembly elected five individuals to serve as the first members of this committee, including David Walker of the United States, who is both the Comptroller General of the United States and current head of the U.S. Government Accountability Office.

Second, the extension of the U.N. Ethics Code to apply overall to the U.N. System, including the U.N. Funds and Programs.

Third, continuation of the work of the United Nations Procurement Task Force which to date has identified ten significant instances of fraud and corruption involving tainted contracts worth $610 million.

And, fourth, Mr. Chairman, the establishment of a new framework for mandate review.

Despite these four achievements, we still have a long way to go to achieve the U.N. reform that we want in terms of accountability and transparency. For example, significant work remains to be done in order to achieve substantive progress in the area of mandate review.

We also have a considerable stake in advancing needed reforms with respect to U.N. Funds and Programs. The United States provides some $3 billion a year to U.N. Funds and Programs and Specialized Agencies. These programs do important and valuable work, as you said, Mr. Chairman and Senator Coleman, throughout the world. Therefore, we want to ensure that the resources devoted to them are delivered efficiently, effectively, and with oversight and accountability to the world's neediest people and that they are used for their intended purposes.

To pursue these objectives in practical ways, the U.S.-U.N. Mission has launched an initiative that we call UNTAI, the U.N. Transparency and Accountability Initiative. Since May 2007, the U.S.-U.N. has made progress in some of eight UNTAI reforms outlined in my written testimony, such as the extension of jurisdiction of the U.N. Ethics Office over the U.N. Funds and Programs, as

well as a new policy providing for the availability of prospective internal audit reports to member states. We will remain diligent, Mr. Chairman, in pursuing and pushing for the implementation of the entire package of reforms and will continue to press for the availability of past audits.

I would like to turn to the issue concerning North Korea. The mission of the United States in the United Nations raised a number of concerns with regard to this program sometime ago. The UNDP in North Korea established its mission in 1979. The purpose was to "support and supplement the national efforts of the DPRK at solving the most important problems of their economic development and to promote social progress and better standards of life." This effort reflected the international community's concern for the immense suffering of the people of North Korea. The program was shut down, as you said, Mr. Chairman, in March 2007 because the DPRK refused to accept the application of U.N. rules and regulations that apply across UNDP and that were agreed to by the UNDP Executive Board in January 2007.

In June 2006, the United States raised the issue of the irregularities of UNDP's operations in North Korea with UNDP officials. Specifically, our concerns related to whether the UNDP acted in North Korea in violation of U.N. policies and rules by, first, making payments in hard foreign currency; second, utilizing staff seconded from the North Korean Government in core functions; and, three, failing to make adequate project site visits. The purpose of this important triad of financial controls was to ensure that development money directed to North Korea would serve its intended beneficiaries—the North Korean people.

On May 31, 2007, a Board of Auditors preliminary inquiry, initiated by the Secretary-General and the UNDP Executive Board, validated USUN concerns in those areas. In this period, the U.S. Government received further information that indicated the possible misuse of funds in the DPRK programs. USUN shared their concerns about this new information and inquired about these matters with UNDP officials. We also proceeded to engage with the UNDP at the technical level to resolve our concerns, providing representative samples of the information we had received.

Mr. Chairman, the USUN and UNDP could not come to closure on the facts of what had happened. Therefore, USUN sought an independent investigation of UNDP operations in the DPRK. At the end of September, UNDP established the External Independent Investigative Review Panel, led by Mr. Nemeth, the former Prime Minister of Hungary, to review UNDP operations in the DPRK. We have met with Mr. Nemeth and his staff on several occasions and have emphasized our strong commitment to providing all possible assistance in order to facilitate the work of the Review Panel. Our understanding is that Mr. Nemeth will complete his investigation in March 2008. We look forward to his report.

Mr. Chairman, Senator Coleman, Senator Coburn, these are critical issues that affect not only the situation in North Korea but also, as you have all stated, the trust and confidence of Americans and other donors to the UNDP, as well as those in the less developed world who share an interest in an effective and efficient UNDP and the vitally important goal that aid—humanitarian or

development aid—is delivered to its intended recipients, the world's neediest people.

Mr. Chairman, I thank you and Senator Coleman and Senator Coburn and the Subcommittee for your interest in this matter. I look forward to reviewing in detail the report of the Subcommittee. I want to state a firm commitment to you that my goal is to work with UNDP and the U.N. at large to make it as effective and as efficient as possible to serve the intent for which it was created and the purposes for which the Americans contribute their hard-earned money to that organization.

Thank you very much, Mr. Chairman.

Senator LEVIN. Ambassador Wallace, do you have a statement?

TESTIMONY OF HON. MARK D. WALLACE, U.S. AMBASSADOR FOR UNITED NATIONS MANAGEMENT AND REFORM, NEW YORK, NEW YORK

Ambassador WALLACE. I would like to thank the Chairman, Senator Coleman, and Senator Coburn. Obviously, Ambassador Khalilzad and I are a team at the USUN Mission, and his statement speaks for both of us, and I look forward to answering any questions that you have.

I would like to thank you all and your staff for, obviously, the hard work put into this report on a subject matter that is obviously important to us at the mission. Thank you.

Senator LEVIN. Thank you so much.

Ambassador Khalilzad, a number of problems here have been shown to exist with the U.N. program. Despite those problems, do you believe that the program is worth supporting?

Ambassador KHALILZAD. I do, Mr. Chairman.

Senator LEVIN. And why?

Ambassador KHALILZAD. Because, as you have stated, these programs within UNDP do serve the purposes of providing humanitarian assistance or economic development for needy people around the world. I have seen them work with us in areas of great importance to us, the two places where I have had direct experience—Afghanistan and Iraq, both very important for our national security interests and for the future of the broader Middle East, an area of the most importance geopolitically for us at the present time.

So I think they do work well with us. But for them to do what they need to do, there has to be appropriate oversight, and there has to be care taken that the monies go to the purposes for which they have been dedicated.

Clearly, in the case of North Korea, there were problems, and we were the ones that brought those problems to the attention of the UNDP, and we are working with them to address those. But I believe that this is a very worthwhile program in terms of America's national interests.

Senator LEVIN. By the way, let's have an 8-minute first round. I should have announced that.

There are a number of issues I want to focus on. One is the allegation about the $2.7 million which were transferred by the North Korean Government to its embassies. Both Senator Coleman and I spent some time in our opening statement describing that, and I think you are probably familiar with it. There are a number of

issues that are involved in that, its use, misuse of the imprimatur of the U.N. in an account to make it appear as though somehow or other that transfer involved the U.N. And I am wondering if you would agree, Ambassador Khalilzad, with what our staff has found, that the $2.7 million were North Korean funds and not U.N. funds. That is our staff finding. Do you agree with that finding?

Ambassador KHALILZAD. I have no reason to judge otherwise. It is clear—and that is one of the concerns we have had, that the UNDP account in DPRK's Foreign Trade Bank was not supervised and attended to appropriately. And that is the kind of information and allegation we had. And one of the things that I am grateful that you have looked at, and hopefully, Mr. Nemeth would also deal with, is the oversight, the issue of oversight. I think as you judged overall there were some problems with regard to the oversight by the UNDP management of the account.

Senator LEVIN. All right. Now, it is understandable why people might believe that those funds were U.N. funds, because of the way they were characterized in the wire transfers.

Ambassador KHALILZAD. Right.

Senator LEVIN. That is understandable that that impression was created.

Ambassador KHALILZAD. Right.

Senator LEVIN. But knowing now what we know, it was our finding that, in fact, those were North Korean funds, which were made to appear to a recipient that they had some connection with the U.N.

Ambassador Wallace, would you agree, knowing what you know now, that those were North Korean funds, that $2.7 million?

Ambassador WALLACE. Senator, I appreciate the inquiry, and I appreciate the close analysis that you gave to this matter. I think the answer is that we do not know, and I would assert, with due respect to the Subcommittee and the staff who did work very hard, I do not think any of us know.

Senator LEVIN. All right.

Ambassador WALLACE. Here is the reason why. We know two facts that have been found by UNDP's internal audits. We know they have been found by the U.N. Board of Auditors and now this Subcommittee. They are that we know that UNDP really operated in the absence of financial controls in North Korea and that they paid in cash currency. The second part of that is that we know and have found that the North Korean Government used this program in a way for less than desirable uses.

Given those two facts, we have documents in front of us that you all have seen that indicate the transfers were made in some way with the imprimatur of the U.N. saying that it was U.N. money, if you will. So if you have two entities, one that did not follow its rules, one that admittedly was engaging in abuses of the U.N. system, and you have documents that suggest that the money was U.N. money, I think it would be somewhat inappropriate to give a free pass and say we do not know that is U.N. money, particularly since cash is fungible, sir.

Senator LEVIN. All right.

Ambassador WALLACE. If cash is paid into that system and it is cash and cash is going out, you do not know where it came from. So I think we do not know.

Senator LEVIN. I understand. Our staff has concluded that. You say you do not know. Would you agree at least that you cannot say that those were U.N. funds?

Ambassador WALLACE. Sir, I believe that cash is fungible and——

Senator LEVIN. Do you believe they were U.N. funds?

Ambassador WALLACE. I don't know, sir.

Senator LEVIN. You cannot represent then to this Subcommittee that these were U.N. funds.

Ambassador WALLACE. I could not represent to this Subcommittee that I know for certain that those were U.N. funds.

Senator LEVIN. Now, in the briefing last May 23, you did represent that they were U.N. funds. Is that correct? And I understand why, I understand the documents and all the rest. But is it accurate to say that last May 23 you did tell the Senators that, in fact, these were U.N. funds?

Ambassador WALLACE. I took the documents at face value, Senator, and I did not have the benefit of a briefing with the North Korean mission, and you——

Senator LEVIN. For whatever reason, that was your statement at the time.

Ambassador WALLACE. Yes, Senator.

Senator LEVIN. You no longer would make that statement because now you don't know. Is that fair?

Ambassador WALLACE. I would say I don't know where the funds came from.

Senator LEVIN. All right. Now, on another matter—and I understand the reason for these confusions, and if we had decent audits and if the North Korean Government were transparent, this would not have happened, presumably. I just want to clarify, however, because these allegations and statements got to the press, that in that particular case that they were North Korean funds—excuse me, that they were U.N. funds. Our staff has found that they were North Korean funds. You, Ambassador, are now saying—I understand why—that you cannot say one way or the other. But that is different from what you briefed Senators back last May when you flat out alleged that these were U.N. funds, for reasons that you have given, and we understand those reasons. I am just trying to clarify the record, including the public record, because a lot of statements have been made publicly here.

Now, the statement has also been made that $7 million were paid into the North Korean UNDP account. It appears now—this is an account called NCCUNDP. This is an account designated to receive UNDP development funds. Do we know now or do you believe, Ambassador Wallace, that $7 million of U.N. funds were deposited in that account? Based on what you now know, not what you were able to ascertain last May but what you now know.

Ambassador WALLACE. Senator, we have a limited picture of documents that are ostensibly official UNDP documents that appear to show transfers and misuses of UNDP funds. We continue to have representations and evidence that suggest monies were paid

directly to the North Korean Government. I believe, based upon the findings of its internal audit reports of the Board of Auditors and this Senate Subcommittee, that payments were made in cash directly to North Korean Government officials.

So I would submit to you, Senator, we don't know how much money was paid.

Senator LEVIN. Talking about that bank account, that North Korean bank account entitled NCCUNDP, do you believe now that $7 million was transferred to that account by the U.N.?

Ambassador WALLACE. It would appear that all the transfers went through that account, Senator. So whatever the monies that were deposited into North Korea—and I think that is another item that we don't know, and the numbers were ranging very broad. So I would submit to you, Senator, that whatever monies were paid into North Korea somehow went through that bank account.

Senator LEVIN. All right. So is it still your belief—I am asking you for your belief—that $7 million of UNDP funds were transferred to a government entity called the National Coordination Committee for UNDP, NCC? Is that still your belief?

Ambassador WALLACE. It is my belief that it may be even more. Whatever the total amount of funds I believe are somehow tainted or went through that account, and one of the questions that I think that is an open issue, frankly, is the total amount of money that was actually paid by UNDP and other agencies in that country. Whatever that total amount of money was I believe went through the FTB in some fashion.

Senator LEVIN. All right. The answer then is yes, you believe that at least $7 million was transferred to that account by the UNDP. Is that correct? Based on what you now know, you believe it.

Ambassador WALLACE. As I said, Senator, I would testify again, whatever amounts of money—and I think that they are greater than that amount of money—went through the FTB in some fashion one way or the other because of their relationship there. Frankly, we don't have a complete picture, so we are all, I think, speculating here. To the extent that we had the ability to forensically look at their bank accounts and otherwise, I think we could be certain. What I do find disturbing is that after looking at internal audits, the Board of Auditors, a Senate PSI investigation, and the U.S. Mission to the U.N., I don't think any of us can say with certainty the amount of money that UNDP delivered North Korea, either on behalf of itself or the variety of U.N. agencies that it paid for.

Senator LEVIN. I am just asking your belief, and you believe that at least $7 million was put by UNDP into that account. That is your belief, your current belief. I am asking you a simple question. At least that much you believe was transferred by UNDP to that account.

Ambassador WALLACE. Well, when you say "transferred," Senator, I believe there were payments in cash that went into that account. I believe that there were transfers to that account. I believe we don't know the total amounts.

Senator LEVIN. Finally, Ambassador Khalilzad, do you believe that the UNDP operations in North Korea were corrupt or tainted by widespread corruption?

Ambassador KHALILZAD. I have seen no evidence, and the people, including Ambassador Wallace, who have worked with who have looked at this, none of them have brought to me evidence that the management headquarters was involved in corruption or corrupt practices or profited from their supervision of the program in North Korea.

What it looks to me like—and I am giving you a personal judgment at this point based on what I have seen, and we are going to wait to read your report in detail, and Mr. Nemeth's—is that there was lax supervision and not the kind of detailed management and the kind of accountability and transparency that should have been performed was not performed. But I don't believe the management was involved in corrupt practices.

Senator LEVIN. All right. Would you agree with that, Ambassador Wallace?

Ambassador WALLACE. We have never asserted that anyone profiteered or took advantage of monies for the personal account of any UNDP official that we are aware of. We have obviously focused on the absence of financial controls.

Senator LEVIN. And would you describe, therefore, those operations as corrupt or tainted by widespread corruption?

Ambassador WALLACE. I would characterize them as mismanaged and with gross neglect.

Senator LEVIN. Does that mean you do not agree with the description of "corrupt" or "characterized by widespread corruption"?

Ambassador WALLACE. We do not believe nor have we seen any corruption in the sense that a UNDP official profited from business in North Korea, Senator.

Senator LEVIN. Thank you. Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman. I just thought I would clear up this issue of the $2.72 million that moved from a North Korean account and a bogus account. If staff could put up some of the documents because I want to make sure we have stats so we know what we are talking about here. We are talking about the IFTJC and the other document here.[1] But just so we are clear, the Subcommittee's statement about moving $2.7 million, now that is—UNDP maintains that it is not UNDP money. But I do believe that what the Subcommittee then states in a footnote is that, "We were not given unfettered access to the system. We have not had the opportunity to review original receipts, so we really do not know where the money came from. We cannot establish it was UNDP money. We simply don't know. UNDP says it is not theirs and that they have never seen, in fact, some of these records."

Ambassador Khalilzad, beyond the North Korea situation, this issue of management reform and transparency has been a concern of this Subcommittee for a while. The outcome document—I think it was in 2005—raised this issue. One of the issues has to do with program review, and I think in your statement you talked about progress being made.

[1] See Exhibit 8, which appears in the Appendix on page 215.

To date, there are over 9,000 various U.N. programs. Is that correct?

Ambassador KHALILZAD. Mandated.

Senator COLEMAN. Mandated. To date, has there been a program review of a single one of those?

Ambassador KHALILZAD. Well, at the present time, as we speak, the humanitarian mandates are being reviewed by the Secretariat as part of this agreement that we made 3 or 4 months ago of a framework agreement for mandate reviews. The 9,700-plus mandates are a huge burden on the organization, and there are mandates that are of no relevance anymore. So, therefore, this has been a top priority of mine, and we have made an agreement on how to proceed with the review, and it has started.

Senator COLEMAN. My frustration is we have had an agreement to proceed. I was with the Secretary-General last year with Senator Biden, and we had an agreement on how to proceed in Darfur and that we were going to have troops on the ground. And in spite of agreements to proceed, we have seen no action. And my concern here is we have an agreement to proceed, and 3 years after we raised—perhaps 4 years after we raised the issue, we are still proceeding under an agreement to proceed.

Ambassador KHALILZAD. Right.

Senator COLEMAN. So I just kind of lay that out there and——

Ambassador KHALILZAD. Well, if I could say something, Senator Coleman, on your example of Darfur, of course, the problem is mostly with Bashir, that he is not allowing the U.N. to do things.

With regard to the mandate, it is mostly the problem within the U.N. System, so there is more of a burden, I think, with regard to——

Senator COLEMAN. I understand, but in both instances—I remember vividly talking to the Secretary-General, who was very positive about the agreement with Bashir.

Ambassador KHALILZAD. Right.

Senator COLEMAN. And that was a year ago, and travesty is still occurring in Darfur. And that is my concern with the U.N. We have a lot of agreements that require action.

Ambassador KHALILZAD. Right.

Senator COLEMAN. Whistleblower protection is another area. It is an important area. I would hope after the beginning of this inquiry that, in fact, we would have whistleblower protection across the board. The Secretary-General in January came out and said whistleblower protection should apply to all the agencies.

Ambassador KHALILZAD. Right.

Senator COLEMAN. We are still debating it, though, with UNDP. Is that correct?

Ambassador KHALILZAD. We are, but I think we made, as you noted in your statement, progress that the Secretary-General said it should apply to all U.N. Funds and Programs.

Now, the particular case that you have mentioned with regard to the person, the whistleblower at UNDP, there has been a disagreement in terms of the jurisdiction applying by the Ethics Office of the Secretariat to this case, and this is part of the Nemeth group that will look at. But we have made progress, but not sufficient, in our view. We want and we will work for the coverage of the Sec-

retariat application to all U.N. Funds and Programs. That is where we are, and we will push for that.

But we have made progress, and I do not want to oversell how much progress we have made. We have made some progress, but there is a long way to go.

Senator COLEMAN. And I applaud the Secretary-General for his statement. His policy covers—is this correct, Ambassador Wallace? His policy would cover contracted employees? UNDP said that they have had whistleblower protection a long time. Does their current policy cover contractors?

Ambassador WALLACE. I think you raise an issue that is really a big fundamental issue in the U.N. System. There is a big difference between staff and contractors. We see the U.N. on a core resources budget having a finite number of staff but thousands and thousands of additional people under a contract that are performing staff-like functions. And there is a big debate going on whether those people that are performing staff-like functions should be covered. I believe that if people are performing staff-like functions, I think they should have the benefits of being protected like staff.

Senator COLEMAN. And the case in question, Mr. Shkurtaj was a contractor. And so if you simply——

Ambassador WALLACE. Performing core work.

Ambassador KHALILZAD. Core work.

Senator COLEMAN. Doing core work. He was a manager. He was overseeing a program. And if you simply terminate his contract, you would argue there is no retaliation. But that is exactly what whistleblower protection should be protecting against. And UNDP comes and says, well, we have had protection. I would maintain that is insufficient. That is why the Secretary-General issued the policy. And then to come back and to argue the policy does not apply to others other than those within the Secretariat, and then to maintain—and I believe with UNDP they have about 9,000 staff versus about 20,000 contractors. Am I in the ball park on that?

Ambassador WALLACE. I believe it is even more contractors, but it is not clear to me, Senator.

Senator COLEMAN. If staff could put up some of the charts. We have talked about this International Finance and Trade Joint Company (IFTJ), and at the same time, we have talked about the Foreign Trade Bank. Just so that we understand, the Foreign Trade Bank is an entity of North Korea. Is that correct? Foreign Trade Bank?

Ambassador WALLACE. That is what we understand, Senator.

Senator COLEMAN. A government entity.

Ambassador KHALILZAD. Right.

Senator COLEMAN. What the Staff Report is showing is that you have individuals who are employees of the government entity are also now involved in running this IFTJ. In effect, the IFTJ is a phony entity. Is that a fair statement?

Ambassador WALLACE. Senator, I am not familiar with—I know what I know about IFTJ. Certainly it is a suspicious entity.

Senator COLEMAN. OK, but there is no question that the IFTJ is not an official North Korean Government agency. Is that correct?

Ambassador WALLACE. Ostensibly, yes, sir.

Senator COLEMAN. Ostensibly, yes. But, in fact, the same people who run the Foreign Trade Bank are government officials. Their cards were interchangeable; they go back and forth. And the IFTJ is the entity through which the $2.72 million was transited then to embassies in Canada or the U.K. and Europe. Is that correct?

Ambassador WALLACE. That is what the documents reflect, Senator.

Senator COLEMAN. I have a little point, one last question to you, Ambassador Wallace, but it is a little point that, I have to tell you, gets my goat. I do not know where this is in the documents, but there is a document and it is labeled "Elsingore S.A." It is a packing list. This is UNDP money providing for the North Koreans certain member—this is a development program. Is that correct?

Ambassador WALLACE. Yes, Senator.

Senator COLEMAN. There were books that were purchased with Development Program money. Is that correct?

Ambassador WALLACE. Yes, Senator.

Senator COLEMAN. There is no question about the authenticity of the document.

Ambassador WALLACE. Yes, Senator.

Senator COLEMAN. And among the purchases, the books purchased with Development Program money, is a book labeled "Second Strike: Arguments About Nuclear War in South Asia"; "The Secret History of the CIA"; "Taming American Power"; three others—I have a score of other books. "The End of Iraq," Galbraith book; "Contemporary Nuclear Debates." This is "Deadly Arsenals," "Reshaping Rogue States." I could go on. A number of "Second Strike: Arguments About Nuclear War in South Asia," a copy of that.

Am I missing something? Could you let me know, is there any development purpose that would be accomplished by UNDP funding this for the North Koreans?

Ambassador WALLACE. No, Senator, and I truly hope you don't ask me to do a book review while I am here.

Senator COLEMAN. OK. No further questions at this time, Mr. Chairman.

Senator LEVIN. Thank you, Senator Coleman. Senator Coburn.

Senator COBURN. Thank you. Let me go back and make a couple of points. All the Korean funds are fungible, right? They are all fungible. So whether they came from their drug sales, which we know they are doing, or whether they came from selling missiles, or whether they were deposited in this account of money that we had given them through UNDP, we don't know. Correct? We don't know the answer to that.

Ambassador WALLACE. I think that is correct, Senator, and I think it is very important because I think we are having a tendency to be somehow at odds over the amount of monies there. The reality is we don't really know, I don't believe. We can only know the statements that are made by UNDP's audits, the other agencies that they paid in. We know that they paid in cash. We know that there were transfers. And we know they were all somehow tainted by this banking system.

So I think that the debate about the total figure, we can have that debate, and I have lots of facts about——

Senator COBURN. OK. I don't care what——

Ambassador WALLACE. I just know it is a lot of money. I don't know what the——

Senator COBURN. I don't care what the total figure is. I just want to establish the point is we don't know where the money—it is a deep, dark black hole and nobody knows where the money is.

There was an audit done on this, correct?

Ambassador WALLACE. There were in 1999, 2001, and 2004 and——

Senator COBURN. And that is not available to us as U.S. Senators, correct?

Ambassador WALLACE. That is correct, sir.

Senator COBURN. And is there a good reason why, when America contributes 22 percent of the U.N. budget and a smaller percentage, 10 or 11 percent, of UNDP's total budget, that we should not be able to see the audit results of programs within UNDP?

Ambassador WALLACE. In fact, it has been one of the top reforms that I have fought to adopt at the U.N. We need to have those audits. We can't follow the money——

Senator COBURN. I am not disputing that. I am saying is there a cogent reason why we should not have that information.

Ambassador WALLACE. The only reason offered by UNDP is that it reveals internal decisionmaking. And my answer to that, Senator, would be: If there is internal private matters, Social Security numbers or the like, that is sensitive to the people, you can redact that information. I think otherwise that information should be made available to member states and, frankly, to the Senate, and it should be public, in my opinion.

Senator COBURN. Senator Levin asked Ambassador Khalilzad about the potential good that UNDP can do. How do we know if we do not have metrics and we are not measuring it? How do we know what UNDP is doing if there is not a metric set out there to measure and then we don't compare what their goals are against what they accomplished? How do we know that UNDP is positive in its effect other than we are spending a lot of money?

Ambassador KHALILZAD. Well, to go back to the audit issue, I completely agree with Ambassador Wallace that we need to have access to it. Some of the reasons, when we have had the discussion with them, have had to do with the kinds of things that Ambassador Wallace talked about, but they also mentioned that previously there was no decision that they would be made public and, therefore, information that is in there, countries would be sensitive to be shared with other countries with regard to what is happening in their programs. And Ambassador Wallace has suggested this idea that maybe there would be a way to overcome that, redaction. So we are pushing for that.

As far as knowing whether we are achieving goals, of course, when they build a school, we know whether they have built a school there, development projects that we know that are taking place. But I think to have the fullest confidence that they are achieving the goals that they have sought to achieve, we need to have access to their audit reports. There is no question about that.

Senator COBURN. Why should there be any effort to hide where the money goes? I mean, why should——

Ambassador KHALILZAD. Absolutely.

Senator COBURN. Why shouldn't the whole world know? I mean, if what we are doing is humanitarian in our goal and supposedly ethical in how we accomplish it, why would we not want sunshine to be on it? So how is it that we can stand and continue—by the way, the Federal Accountability and Transparency Act is a Federal law that requires the U.N. to give us where they spend our money. You all are aware of that. And so I suspect, since we are not going to get that from the U.N., we are going to see a large court case come up that will force or tie U.S. contributions to the realization that the U.N. has to be compliant in exposing where our money is spent.

Ambassador Wallace, UNDP's own auditors, the U.S. State Department, and now this Subcommittee report all found that UNDP had committed serious wrongdoing in terms of its North Korean programs. You said you did not think they were criminal, but at the best, it was highly incompetent. Yet the UNDP has denied each charge and has already begun spinning this Subcommittee report as exonerating their management of the programs. And when their own core manager, who was a contract employee, raised something about it, what did they do? They canned him. Correct? Are there any insurances that our contributions right now that are going to go forward this next year are going to be safe from enriching other rogue and terrorist states? How do the American people know that if we give another quarter of a billion dollars to UNDP next year that it is not going to get wasted or is not going to supplement somebody's missile sales to somebody else? How do we know that?

Ambassador WALLACE. Senator, I think in certain countries where there is much more transparency—and frankly, the countries that are a challenge are the politically difficult countries around the world. I think in those politically difficult countries, if we are not adhering to the strictest U.N. financial regulations, which are on the books, which UNDP did not follow in North Korea, I could not sit here today and attest that I knew where the money went. When you are paying in cash currency, you have government seconded officials doing core tasks, and you have greatly restricted project sit visits, you do not even get to see the school or the development project at issue, I am worried. And that is one of the reasons why we raised concerns.

So I would submit to you, Senator, that I am definitely concerned about certain areas where UNDP does business. I think UNDP is a really important partner to the United States. I think they could do very good work. But if they are not going to follow U.N. financial regulations in these tough environments, I cannot in good faith come to you, sit before you, and swear to you that I knew where U.S. taxpayer dollars went.

Senator COBURN. So has the President or the Administration suggested that we reduce the dollars that are going to UNDP until we know where the money is going to go?

Ambassador WALLACE. I believe, Senator, that our request was about $100 million last year.

Senator COBURN. OK. I want to make one other point because it is fairly concerning to me. Ambassador Hill, who is leading our Six Party Talks, some of the information in this report he wanted to keep classified even though the Treasury Department said there

was no reason to do that. The Treasury Department said this information should not be classified since it did not reveal methods and sources.

So is there any other reason why the State Department authorized Ambassador Hill to censure the information other than to protect the reputation of the Six-Party Talks? Is there a political reason why we are not allowing this information to be put out there when, in fact, it has no true classified value? Is there a political reason why we are doing that?

Ambassador KHALILZAD. I am not aware of any political reasons for doing that, Senator.

Senator COBURN. OK. Well, it is very concerning to me that here we find ourselves with a great intent of the American taxpayer giving money through the U.N., counting what we do—it is about $5.6 billion a year. We are by far the largest contributor in almost every program, and that we have members of our own government stopping our ability to see transparently whether or not the American taxpayer is getting value.

I have a lot of other questions. I think I will submit them, if I may, for the record and ask that I get a written response to them rather than tie you up now. And I thank the Chairman.

Senator LEVIN. They will be made part of the record, and we will leave the record open for the usual amount of time so that other questions can be asked.

As a matter of fact, we did end our support of this program. Is that not correct?

Ambassador KHALILZAD. We have. The program has ended.

Senator LEVIN. And the reason that we did is because they did not comply with their own rules and regulations. Is that correct?

Ambassador KHALILZAD. When UNDP did, the North Koreans said no, and, therefore, the program was suspended.

Senator LEVIN. And so what UNDP did was, under our insistence, say that you are not following your own rules and regulations, policies and practices.

Ambassador KHALILZAD. Right.

Senator LEVIN. And so they ended their program as a result of our insistence.

Ambassador KHALILZAD. Absolutely. We played a vital role in bringing about changes in the UNDP practices, which the North Koreans rejected to comply with, and, therefore, the program was suspended.

Senator LEVIN. Now, if our mission to the U.N. had been given access immediately to UNDP audits, would that have eliminated some of the controversy which surrounded the operations of the UNDP in North Korea?

Ambassador KHALILZAD. I believe it would have contributed, it would have helped, certainly.

Senator LEVIN. All right. Now, Dr. Dervis' proposal that the UNDP Executive Board members get "read only" access to future UNDP audits, is that acceptable? Why should we just be able to read them and not make copies of them?

Ambassador KHALILZAD. I think that it is a step in the right direction compared to where he was, but it is not sufficient. We dis-

agree with him on not having access, complete access, and also not getting existing audits that have been done in the past.

Senator LEVIN. And have you made that clear to Dr. Dervis?

Ambassador KHALILZAD. I have.

Senator LEVIN. Is the Administration recommending that we continue support of UNDP even though we do not get copies, and copies are not made public of those audits?

Ambassador KHALILZAD. Yes.

Senator LEVIN. And why?

Ambassador KHALILZAD. Because we believe what we get from UNDP otherwise is very important for our national interest, and, therefore, while we want those changes that we talked about, we want access to the audits, we want other changes. We believe we have a variety of weapons to use and that terminating all assistance is not appropriate at this point to achieve those goals.

Senator LEVIN. Now, UNDP disavowed the jurisdiction of the U.N. Ethics Office, and they declined to allow the office to review the case of Mr. Shkurtaj. Do we agree with that decision?

Ambassador KHALILZAD. We do not agree with that decision of UNDP.

Senator LEVIN. And what actions have we taken to overcome that decision?

Ambassador KHALILZAD. We are now—both sides agree, the Secretariat and UNDP, to have the Nemeth Committee look at how this gentleman was treated.

Senator LEVIN. But also the process?

Ambassador KHALILZAD. With regard to the process, again, there is discussion going on among the U.N. Funds and Programs and the Secretariat with regard to this issue to develop a common set of approaches that they could all agree to. And we have made our point clear that we believe that the Secretariat should have jurisdiction over all U.N. Funds and Programs. But they are in discussion among themselves.

Senator LEVIN. Thank you. Senator Coleman.

Senator COLEMAN. Ambassador, do you know whether as part of the Six-Party Talks, whether there is an effort for UNDP to go back into North Korea? Do you know whether that has been on the table?

Ambassador KHALILZAD. I am not aware of that, Senator. I have received no indication of that kind.

Senator COLEMAN. Have there been any discussions about possibilities of increasing humanitarian aid for North Korea?

Ambassador KHALILZAD. Not that I have been instructed with regard to.

Senator COLEMAN. But if that were to be, then UNDP would be the agency that would typically administer the aid? Is that correct?

Ambassador KHALILZAD. That is one of the instruments.

Senator COLEMAN. Could we look just very quickly at the organizational chart? If that happens, my concern is that what we saw before, we don't go through it again. The organizational chart is the UNDP.[1] That is their structure in North Korea. The shaded boxes

[1] See Exhibit 4, which appears in the Appendix on page 206.

are—when we talk about seconded, that means that the North Koreans place people there.

Ambassador KHALILZAD. Right.

Senator COLEMAN. So these are North Korean agents that are working within UNDP, and, in fact, is it correct that they include folks who were bank signatories on behalf of the North Koreans? These are things that in seconding we have given the North Koreans authority, both in terms of the people they place, authority over things like bank signatories, certifying office functions, contract and travel authorizations, maintaining petty cash, maintaining financial aid, these are all done by North Korean agents working for ostensibly UNDP. Is that correct, Ambassador Wallace?

Ambassador WALLACE. Yes, Senator. It appears that North Korean seconded officials were operating in core places, including with signature authority. That is what we have understood.

Senator COLEMAN. And we also understand that UNDP operations themselves were subject to searches by North Korean security officials, that conversations were monitored. In effect, there was no privacy that any UNDP functionaries had in operating in North Korea. Is that correct?

Ambassador KHALILZAD. I wouldn't be surprised that those would be correct given the nature of that system.

Senator COLEMAN. OK. And, by the way, my staff said it is not just the shaded. It is a whole range of those that are marked as official, official, official, and there are a series of them.

My point is this, that if we go back, if there is discussion about aid to North Korea as we deal with the Six-Party Talks, which we all want to be successful, my hope would be that we would operate with a system of transparency and accountability. We cannot measure what we have got out of UNDP, and I want them to succeed. But I do know you have a system in which the North Koreans basically set the terms, and UNDP has come back and said that that is the way that other NGOs operate, that is the way we operate in other countries. Could you respond as to whether that is a sufficient justification for what we have found here?

Ambassador KHALILZAD. Not a sufficient justification in my view, but they do point out—and I have been told by some of my colleagues from the countries who have missions there—that is how they operate, the way UNDP did. But that is not acceptable in my view.

Ambassador WALLACE. If I could add, Senator, remember what UNDP does. UNDP is typically the resident representative in the country——

Senator COLEMAN. Say that again.

Ambassador WALLACE. The resident representative of the Secretary-General, the top U.N. agency official in-country. And in Pyongyang, it is our understanding that UNDP made payments and delivered aid, development aid, on behalf of its own account, but on behalf of a variety of other agencies. So I do think that as the top lead official, particularly as they seek to implement something called the "one U.N. System," where they are the top official around the world, I think that the highest standards of financial control, they need to speak to that. And in my opinion, I think it is imperative that if you are going to deliver aid, no matter where

it is, if you do it in the absence of financial controls, you are doing it irresponsibly.

Senator COLEMAN. Thank you, Mr. Chairman.

Senator LEVIN. Thank you. Dr. Coburn.

Senator COBURN. Ambassador Khalilzad, just one other question. You answered Senator Levin and you answered Senator Coleman that we are getting value from UNDP. How do you know that?

Ambassador KHALILZAD. Well, we have to make a distinction between the North Korean case, which has had these problems, but that is not the entirety of——

Senator COBURN. Oh, I understand that. I am just saying, what statistics, measurements, metrics, or indications tell you that we are getting value? In other words, that is a judgment you are making. I am not critical of the judgment. I am just asking what are the tools you are using to make——

Ambassador KHALILZAD. Well, we do have tools, and I will submit it to you in detail for the record. We know what the programs are of North Korea. There is appropriate oversight. We have not raised questions about oversight with regard to quite a number of other countries where there are UNDP programs. There are site visits where programs, projects that are carried out are being observed. So my comment was overall, not with regard to the North Korea——

Senator COBURN. OK. Does any of that information come from other sources other than UNDP's self-reporting?

Ambassador KHALILZAD. Well, our embassies in some of these countries also have access to—our AID folks also see those programs. But in order to be completely responsive with regard to each country, I could provide——

Senator COBURN. That is fair.

Ambassador KHALILZAD. So North Korea should not be seen that that is the model as to how UNDP operates around the world.

Senator COBURN. Well, I will assure you from our other hearings on USAID, they do not do any oversight. So it is hard to know whether USAID is accurate in their assessments as well.

Ambassador KHALILZAD. Well, I mean, there are always questions about—I have worked in Afghanistan and Iraq, and I have had some problems——

Senator COBURN. I know you are.

Ambassador KHALILZAD [continuing]. Myself knowing even our own projects as to when they say that school is being built, that is given to a contractor who has subcontracted, and the area has security problems. And that is why I got the Corps of Engineers to come and help me with sort of——

Senator COBURN. I agree, you and I both have been through this. We know about Afghanistan. That is why we have the SIGIR in Afghanistan that started in January this year.

Ambassador KHALILZAD. Exactly.

Ambassador WALLACE. May I add to that, Senator, briefly?

Senator COBURN. Sure.

Ambassador WALLACE. I think we should be honest. I do not believe that we perform adequate oversight of the U.N. Funds and Programs and Specialized Agencies. That is a tough admission for a U.S. Ambassador whose portfolio is supposed to cover that. But

I am admitting that to you today, and that is in no way a criticism of the incredibly fine civil servants that I have worked with who have been struggling to deal with these multi-headed U.N. Funds and Programs. But the reality is that in many cases our oversight entails going to a board meeting twice a year, you sit in a chair for a couple of hours, and you hear reports. And this has to do with hundreds of millions of dollars of U.S. money.

I think that the transparency and accountability mechanisms of these U.N. Funds and Programs are, frankly, living 30 years in the past, and that is one of the reasons why we have promoted the UNTAI initiative. By admitting, Senator, frankly, that I don't think we do a good enough job and it is something I think I said a long time ago, I hope that we can do better.

Senator COBURN. Yes, I agree.

Ambassador WALLACE. And we have to do better; otherwise, I cannot answer questions that you are fairly asking me.

Senator COBURN. OK. One final question. You are charged with oversight, correct?

Ambassador WALLACE. Yes.

Senator COBURN. What is the size of your staff?

Ambassador WALLACE. My staff is small, but very effective, Senator. I think that they—I wouldn't trade them for anybody in the world.

Senator COBURN. Well, this isn't to make a quality judgment about your staff. The point I want to make is here is all this area that we don't have any oversight on, and yet we have this limited group of people who are highly qualified and dedicated, and we are going to ask you to give us an answer to something that is impossible for you to do.

Ambassador WALLACE. I think I have eight to 10 people on my staff.

Senator COBURN. So the point, again, comes: Are not the American people entitled to know where their money is being spent through U.N. agencies? Are they not entitled to that?

Ambassador WALLACE. Not only are they entitled; they should know it.

Senator COBURN. And so, therefore, what is this Congress, and what is this Administration going to do about it, especially with regard to the North Korean UNDP and the other areas where it may not be effective because we don't know? So the question has to be before this Congress: Are we going to put some teeth into our contributions to the U.N. to require transparency so we know whether or not what we are giving money to is actually carrying out what we intended to do, which is the betterment of other people?

Ambassador WALLACE. Absolutely. And, Senator, I think the first step of oversight is being informed, and I think your interest in audits, for example, our UNTAI initiative, which really is a mechanism for providing information to us and the flow of information so that we can provide effective oversight. You need to be informed before you can make oversight. And that is why we rolled out our UNTAI initiative. We have had some beginning successes, but we have a long way to go.

Senator COBURN. Things are going to change when the United Nations and every agency that works therein understands that

American dollars are predicated on transparency. Your job is going to get a lot easier, and it is going to require our bolus to make that as a condition, and then the U.N. is going to have to change. And if it does not change, we should not keep sending the money. And I am going to work as hard as I can to get that transparency, and if they want to keep denying it, then I am going to work as hard as I can to start sending the money a different way where we can see how it is spent. Thank you.

Senator LEVIN. Thank you, Senator Coburn. We thank you both for your appearance and your very helpful testimony.

Ambassador KHALILZAD. Thank you.

Ambassador WALLACE. Thank you.

Senator COLEMAN. Mr. Chairman, I want to thank the Ambassadors—Ambassador Khalilzad, we have worked together in Afghanistan and Iraq—for their tremendous service to this country.

Ambassador KHALILZAD. Thank you.

Senator COLEMAN. And, Ambassador Wallace, what you have done. I was remiss in not expressing my deep appreciation for you and the staff with whom you work and the contributions they make on a daily basis. So please understand that.

Ambassador WALLACE. Thank you, Senator.

Ambassador KHALILZAD. Thank you very much.

Senator LEVIN. Thank you both.

Let's now call our second panel: Thomas Melito, Director of International Affairs and Trade at the Government Accountability Office.

Mr. Melito, we appreciate your being with us this morning. We welcome you to the Subcommittee, and as you well know, all witnesses who testify before the Subcommittee are required to be sworn in, and so I would ask you to stand and raise your right hand. Do you swear that all the testimony you are about to give before this Subcommittee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. MELITO. I do.

Senator LEVIN. I think you know the ground rules, so we would ask you to proceed.

TESTIMONY OF THOMAS MELITO,[1] DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Mr. MELITO. Thank you. Chairman Levin and Ranking Member Coleman, I am pleased to be here today to discuss U.N. operations in the context of three key issues that we reported on in 2007: First, the progress of management reform efforts at the U.N. Secretariat; second, weaknesses in oversight and accountability in selected U.N. organizations; and, third, constraints upon U.N. activities in Burma.

Events over the past several decades indicate that there is continuing need to reform and modernize the U.N. in areas including management, oversight, and accountability. While U.N. worldwide operations have expanded in complexity and significance, longstanding problems in U.N. management have contributed to scan-

[1] The prepared statement of Mr. Melito appears in the Appendix on page 68.

dals in the Oil-for-Food Program and procurement operations. In addition, the United States has been critical of Burma's military regime, which has hindered the ability of some U.N. organizations to address Burma's most pressing problems.

In our report on U.N. management reform efforts, we noted that progress has varied in ethics, oversight, and procurement, and several factors have slowed the pace of progress. The U.N. Ethics Office has worked to improve ethics by developing standards, enforcing financial disclosure requirements, and implementing a whistleblower protection policy. However, weaknesses in the U.N.'s internal justice system may constrain the impact of the whistleblower protection policy.

The U.N. has made some progress in improving oversight by creating an Independent Audit Advisory Committee and improving the capacity of the U.N.'s internal oversight office to carry out internal audits and investigations. However, U.N. funding arrangements continue to constrain the independence of this unit and its ability to audit high-risk areas.

Progress in procurement reform efforts has been mixed. The U.N. has strengthened its training program for procurement staff but has not formally established an independent bid protest system.

Finally, the pace of U.N. management reforms has been slowed by several factors, including disagreements among member states on the importance of management reform efforts, a lack of comprehensive implementation plans, and competing U.N. priorities. These factors limit the capacity of member countries to address management reform issues.

In our report on oversight and accountability of six U.N. organizations, we addressed the extent to which these organizations' internal audit offices have implemented professional standards and whether governing bodies are provided with information about the results of U.N. oversight practices. Although the six U.N. internal audit offices have made progress in implementing international auditing standards, they have not fully implemented key components of the standards. We found that five of the six organizations have established whistleblower protection policies; however, UNDP was still developing such a policy, and none of the six organizations required their staff to disclose their financial interests.

In addition, some of the audit offices had not fully implemented a quality assurance process, such as having external peer review. Several of the organizations also did not have professional investigators to probe allegations of wrongdoing. We also reported that the governing bodies responsible for oversight of the six organizations lacked full access to internal audit reports, limiting their ability to identify critical systemic weaknesses.

In our report on Burma, we identified U.N. efforts to address Burma's humanitarian and development problems and describe the impact of the regime's recent actions upon them. We found that Burma's military regime has blocked or significantly impeded efforts to address human rights concerns and to help people living in areas affected by ethnic conflict. The regime frustrated ILO's efforts to monitor forced labor for 4 years before signing an agreement in February 2007. It restricted efforts by UNHCR to assist populations living in areas affected by ethnic conflict and blocked

efforts by the International Committee of the Red Cross to monitor prison conditions in conflict situations. The regime has also, to a lesser degree, impeded U.N. food, development, and health programs by restricting their ability to operate freely within the country. Nonetheless, several officials told us they are still able to achieve meaningful results in our efforts to mitigate some of Burma's humanitarian problems.

In conclusion, the U.N. is increasingly called upon to undertake important and complex activities worldwide. As the U.N.'s role and budget expand, so do concerns about weaknesses in accountability, transparency, and oversight. Addressing these weaknesses will require concerted and sustained actions by member states and U.N. management.

Mr. Chairman, I would be pleased to answer any questions you may have at this time.

Senator LEVIN. Thank you, Mr. Melito.

As we have heard this morning, the U.N.'s general practice has been to keep its audit reports confidential, seen only by management, has often denied access to U.N. member states, and this Subcommittee and many others have for years urged greater access to U.N. audit reports, not just for U.N. member states but for the public, and obviously for the Congress.

The UNDP case history in North Korea proves the point. Denying ready access to the audit reports hurt UNDP-U.S. relations, caused confusion over the facts, and for no real gain. We were able to obtain copies of the UNDP audit reports from other sources. Those reports did not cause problems. They helped us understand and analyze the facts.

So let me ask you, what has been your experience with getting access to U.N. audit reports? Have you had access?

Mr. MELITO. Last year, we reviewed the auditing practices of three U.N. Funds and Programs and three Specialized Agencies, and that included UNDP. And in the course of our work, we were denied access to the internal audit reports. We were able to discuss generalities about the audit processing, but we were unable to look at individual reports. We recommended that one of the reforms that U.N. Funds and Programs and Specialized Agencies should implement is to make audit reports available to member states.

Senator LEVIN. Were you given reasons for why you were denied audit reports?

Mr. MELITO. It was policy and practice.

Senator LEVIN. But did they give you the policy? Did they tell you what the policy is, or did they just say it is policy?

Mr. MELITO. Well, they must answer to their Executive Board, and without having been given permission to make this change, I don't think such a change was possible. But, that said, I think these are the kind of things which would help oversight and help transparency.

Senator LEVIN. Have you seen U.N. audit reports?

Mr. MELITO. Oh, yes.

Senator LEVIN. And what is the quality of those reports?

Mr. MELITO. Starting in 2005, the reports of OIOS, which is the audit unit of the Secretariat, have become available to member states. As with many things, they vary in quality, but there are

some very good reports being done. I think the quality of the reports probably would improve over time if they were made publicly available.

Senator LEVIN. Before he left office, U.N. Secretary Kofi Annan established a U.N. Ethics Office, and it was set up in early 2007, and it got its first Director in May 2007, and I believe the GAO has been an observer of that effort. Was it your understanding that the U.N. Ethics Office was intended to issue ethics policy for the entire U.N. community covering not only the U.N. Secretariat but all U.N. Funds and Programs?

Mr. MELITO. We understood that there was ambiguity on this matter from early on. We know that the U.S. position was that the coverage should include U.N. Funds and Programs, but we also know that there are a number of areas where the authority of the Secretariat to the U.N. Funds and Programs is unclear. And it is my understanding that the Office of Legal Affairs at the Secretariat made it clear early on that General Assembly resolution did not cover the U.N. Funds and Programs.

So we just report the facts. We could not make a determination because that was mostly a legal determination on the structure of the U.N.

Senator LEVIN. Well, when the U.N. Ethics Office made a determination in August in response to the Shkurtaj complaint that it has jurisdiction over only the U.N. Secretariat and not U.N. Funds and Programs like the UNDP, did that surprise you?

Mr. MELITO. Actually, it did not, because that is consistent with some of the other decisions that have been made about where the authority of the Secretariat ends.

Senator LEVIN. In November, Secretary-General Ban directed that all U.N. Funds and Programs establish their own Ethics Offices. First of all, how many U.N. Funds and Programs are there at the U.N.? And what percentage met the January 1, 2008, deadline for setting up their internal Ethics Offices?

Mr. MELITO. I can get back to you on the number of U.N. Funds and Programs. I do know for the three U.N. Funds and Programs we looked at last year, the two criteria that were relevant were that you have an Ethics Office and that you also have a whistleblower protection policy. And UNDP has an Ethics Office but did not have a whistleblower protection policy. The other two U.N. Funds and Programs had whistleblower protection policies but did not have an Ethics Office. So at the time of our study in June, none of the three would have met the criteria.

Senator LEVIN. When the U.N. Ethics Office made its decision in August, it said that even though it did not have jurisdiction over the UNDP, it urged the UNDP voluntarily to submit the Shkurtaj case to it for review. The UNDP declined to do that. It would seem to me that the UNDP, when they did that, undermined the status and authority of the U.N. Ethics Office for no particular reason. Then it set up an ad hoc review committee to adjudicate the Shkurtaj case.

Do you have an analysis or an opinion as to why the UNDP declined to submit that case to the U.N. Ethics Office for review?

Mr. MELITO. I can only speculate, but it goes back to the issues of governance and the role—the different lines of authority between

the Secretariat and the U.N. Funds and Programs. But I think you should pursue that with UNDP yourself.

Senator LEVIN. Thanks. Senator Coleman.

Senator COLEMAN. Thank you.

I want to touch, Mr. Melito, on mandate review. You heard the testimony of the Ambassador that progress is being made. In your report, you make a statement: "Despite some limited initial actions, the U.N. review mandate has not advanced due in part to lack of support by many member states." Is that a fair statement? Do you still stand by that?

Mr. MELITO. Yes, we do.

Senator COLEMAN. And so there are over 9,000 mandated programs, things known as mandate review——

Mr. MELITO. Actually, I think there is some confusion on the actual total number. I think they have settled on 6,900 mandates that are older than 5 years. I don't think they have a total that includes the ones that are younger than 5 years.

Senator COLEMAN. OK. So there are at least 6,900 that old. And out of those 6,900, to date how many have effectively been reviewed and eliminated?

Mr. MELITO. I don't know if any have been eliminated. I think there are 74 that were—the words they use—"set aside," and I am not exactly sure what the operational meaning of that means. But those are ones that have already been completed. Many of these mandates were mandates that set up various organizations within the U.N.

Senator COLEMAN. And when you say lack of support by member states, can you give me a little more information about that?

Mr. MELITO. There is a lot of suspicion about what the ultimate purpose of mandate review is and a lot of disagreements on how it should be carried out and, if there are any freed-up staff resources or budget resources, how they should be used. And I think the lack of agreement and consensus on those elements has held the review up.

Senator COLEMAN. Isn't it a fair statement to say that in many cases these are jobs programs for many folks?

Mr. MELITO. There are a number of mandates which have reporting requirements, annual reports, and there are people staffed on those annual reports.

Senator COLEMAN. With regard to access, the question raised by the Chairman and that all of us have raised—the Chairman has pushed very forcefully—is about the importance of audit access to member states, the importance of access to this body, transparency. You also raised the issue about access—internal access. You make a point of saying that U.N. member states have a lack of access by internal governing bodies. Can you explain that?

Mr. MELITO. This is actually part of the audit reports. Each of these organizations have their own internal oversight unit, and the oversight units tend to be part of the organization, which is not uncommon or necessarily incorrect. But the question then becomes how do you give the units some independence, some ability to go where the units need to go, and then have their information reach the levels where it needs to reach, which is, in the case of the U.N., the Executive Board, which is comprised of the member states. And

we actually have two recommendations which tried to improve this. The first one we have been talking about already today, which was to make the audit reports themselves available directly, let the member states decide.

But there is also another realization, another reality, which is that a lot of the audit reports are arcane, they are dealing with technical issues, so it may be difficult for very busy, limited staff to actually really understand the significance of them. So we think it is important that they also have an independent audit committee composed of professionals who don't answer to senior management, who work with the audit office, look at their work plans, look at the quality of the audits, make sure they are sufficiently resourced, and that group independently reports to the Executive Board on how the audit office is doing.

Senator COLEMAN. So the concerns then are both access in terms of transparency, but also the internal process of the audits themselves and how they are processed and the independence of the auditors.

Mr. MELITO. The independence of auditors and also whether they have sufficient resources to do their work.

Senator COLEMAN. Then the last area of inquiry has to do with the whistleblower protection. In UNDP's statement, they say in their statement to this Subcommittee that they have had policies and procedures in place to protect employees from retaliation, some of which pre-dated the policies initiated by the Secretary-General in 2005. In your statement, you indicate that UNDP was developing a policy on whistleblower protection policies. It appears that your findings—are they in contradiction to UNDP's statements? Can you help resolve this?

Mr. MELITO. UNDP had a general policy toward treatment of staff, but they did not have a specific whistleblower policy protection process which outlines processes and steps and rights and responsibilities and such. That was what was missing, and that is vital to actually having a credible whistleblower protection system.

Senator COLEMAN. And when you talk about staff, I want to make sure we understand the definition of staff. In earlier testimony in the first panel, it was indicated that you have staff employees and you have contractors. But the reality is that these contractors, like Mr. Shkurtaj, for instance, he was the operations manager. He was not an outside contractor or consultant. He was the operations manager performing a core staff function. Are those contractors—and the definition of UNDP talks about it has procedures in place to protect employees from retaliation. Are contractors covered by those procedures?

Mr. MELITO. The U.N. has multiple categories for employment, and actually relatively—less than half of them are permanent employees. But the rest of them have contracts of varying lengths, and I do think there are some categories which are covered, but I am not certain—this is actually an area we have not studied.

Senator COLEMAN. But, clearly, there is not full coverage, and Mr. Shkurtaj's case is clearly not covered.

Mr. MELITO. Well, it is confusing in that case because was it his contracting status what mattered or was it the lack of whistle-

blower protection that mattered. So I think there are possibly two reasons.

Senator COLEMAN. We have called it a contract. All you have to do is not renew the contract.

Mr. MELITO. I understand that.

Senator COLEMAN. Which goes to the heart of why you want whistleblower protection.

Mr. MELITO. Yes.

Senator COLEMAN. And if they are not "employees," particularly when they are performing core functions, you are able to exclude a whole group of folks from the purpose of whistleblower protection. We want individuals who have concerns to be able to raise their hand, come forward, and not worry about losing their job or in this case losing their contract. Does the Secretary-General's program of whistleblower protection, does this provide adequate coverage for the broad range of folks who are working for the United Nations?

Mr. MELITO. As I said earlier, there are staff in different categories, and I am hesitant to say definitively one way or another, but I do believe that staff who have long-term contracts may be covered. But I would defer to Mr. Benson on that matter.

Senator COLEMAN. All right. I will probably submit that and some additional questions. I would like to get a response to that.

Mr. MELITO. OK.

Senator COLEMAN. Thank you very much for your good work, Mr. Melito.

Mr. Chairman, thank you.

Senator LEVIN. Thank you, Senator Coleman.

Thank you so much, Mr. Melito. We appreciate it and appreciate your good work generally at the GAO. Thank all your colleagues there for all the good they do, will you?

Mr. MELITO. I will.

Senator LEVIN. We will now move to our third panel. We now welcome the final panel of witnesses from the United Nations, who will brief the Subcommittee on UNDP issues. As mentioned earlier, we thank the United Nations for the extent of its voluntary cooperation with this inquiry. We are very pleased this morning to have with us Frederick Tipson, who is the Director of the U.N. Development Programme's Liaison Office; David Lockwood, who is the Deputy Director of the Regional Bureau for Asia and the Pacific for the United Nations Development Programme; David Morrison, Director of Communications for the U.N. Development Programme; and Robert Benson, the Director of the U.N. Ethics Office.

The Subcommittee recognizes the privileges and immunities of the United Nations, and, therefore, this panel will not be sworn in. Again, gentlemen, we appreciate very much your being with us this morning, for the cooperation you have shown with our staff and with us, and we welcome you to the Subcommittee.

I think you were here when you heard our announcement about the timing system and about when the lights flash on and off. We understand, Mr. Tipson, that you will be presenting a brief statement for the UNDP, and so we will have you go first, following by Mr. Benson, who will be presenting the briefing statement of the U.N. Ethics Office, and then after these two statements, I gather

it is your understanding that we would then proceed to questions. Is that acceptable? Mr. Tipson, please proceed.

TESTIMONY OF FREDERICK TIPSON,[1] DIRECTOR, LIAISON OFFICE, UNITED NATIONS DEVELOPMENT PROGRAMME, WASHINGTON, DC, ACCOMPANIED BY DAVID LOCKWOOD, DEPUTY DIRECTOR, REGIONAL BUREAU FOR ASIA AND THE PACIFIC, UNITED NATIONS DEVELOPMENT PROGRAMME, NEW YORK, NEW YORK, AND DAVID MORRISON, DIRECTOR OF COMMUNICATIONS, UNITED NATIONS DEVELOPMENT PROGRAMME, NEW YORK, NEW YORK

Mr. TIPSON. Thank you, Mr. Chairman. Thank you very much. As representatives of the U.N. Development Programme (UNDP), we appreciate the opportunity to address the issues raised by this Subcommittee. As employees of an international organization, we must appear informally and on a voluntary basis within the limits of the immunities recognized by the U.S. Government, and we appreciate the Subcommittee's willingness to accommodate these considerations. Yet we also appear here willingly, with the objective of satisfying this Subcommittee that the funds provided to UNDP by the U.S. Government are applied effectively to the purposes intended.

I am Fred Tipson, Director of the Washington Office. You have already introduced me and my colleagues. I am going to limit my remarks to three main points.

First, we appreciate very much the professional manner in which your staff has reviewed UNDP operations in North Korea. We take the findings in this Staff Report very seriously and will consider as an organization how best to address each of the recommendations it contains.

At the same time, in light of the serious allegations about UNDP's operations that have appeared over the past year, it is really essential that we take note that this report does not substantiate any of the following claims: UNDP did not transfer hundreds of millions of dollars to the North Korean Government over the last 10 years. UNDP's funds did not go for North Korean purchases of real estate, nuclear technology, or missile programs. And UNDP did not use cash in North Korea which could otherwise have been diverted or embezzled in circumvention of financial controls. It is important as we address the other issues of concern to this Subcommittee that we emphasize this point at the outset, given the visibility of those allegations in the media.

Second, our objective as an organization must be to satisfy the standards of our major government supporters, including the U.S. Congress in particular, that UNDP is sufficiently transparent and accountable to provide you with confidence in our operations wherever in the world they are. If you are not satisfied with our performance in that regard, then we cannot be satisfied, and we must engage in the continuing process of review and improvement. And I appreciate the recognition that that is an objective on both sides. I hope that our efforts to cooperate with this investigation have demonstrated our high level of commitment in that regard.

[1] The briefing statement of Mr. Tipson, Mr. Lockwood and Mr. Morrison appears in the Appendix on page 87.

In fact, as the attachment to our statement makes clear, UNDP is often cited as a model among global organizations for its openness in reporting, and we pride ourselves on the substantial progress we have made in becoming a flexible, performance-driven, and financially sound organization. Nevertheless, we recognize that on two of the most important issues you have raised—access to internal audits and whistleblower protections—there are basic concerns, and we can address both of those here today.

On access to internal audits, I want to assure you that the head of UNDP, Kemal Dervis, has actually taken a leading role within the U.N. System to advocate a policy of greater access, and he is currently pursuing such a policy with our Executive Board. We can respond to further questions on that issue shortly.

I know you are also concerned about whether UNDP offers adequate protections to whistleblowers. I want to assure you that UNDP strongly encourages the reporting of wrongdoing and does offer protections on those who step forward to report it. But I also want to assure you that in this area as well, Mr. Dervis has worked to support a more collaborative framework on ethics standards and procedures across the U.N. System, and we particularly look forward to working with Mr. Benson's office to assure a strengthened outcome.

Third, UNDP does operate in the most difficult locations in the world, as both of you Senators have acknowledged. We have attached a short overview of the major programs we conduct in a set of the most challenging countries of particular interest to the United States, including Afghanistan and Iraq. To do so, we must apply considerable resourcefulness and discipline to assure that our funds and resources go to serve the needs of the people and not the narrower interests of particular leaders or elites. North Korea is certainly a case in point. The Subcommittee's report has it right. By all accounts, operating development projects in North Korea presented management and administrative challenges of the most extreme nature. I am quoting the report here: "By definition, UNDP operates in challenging environments and has crafted, for the most part, sound rules and procedures to ensure that UNDP development funds benefit the people of the host nation."

But the report and Ambassador Khalilzad's testimony focus on three areas where our practices in North Korea diverge from our general policies in other countries. These involve practices required by the North Korean Government as a condition of operating there. These include the use of convertible currency rather than local currency, the hiring of local staff indirectly through the government, and the requirements regarding government oversight of visits to project sites.

Two points should be emphasized. First, there is nothing hidden about these practices. All three have been well known and permitted by all governments, including the United States, for nearly 30 years. They continue to be the conditions under which all other international organizations, all foreign embassies, and all NGOs operate in North Korea. They were not unique to UNDP and, in fact, are based on operational practices that were widespread in countries such as China and Vietnam until relatively recently. UNDP is alone amongst organizations in North Korea to have

moved to change their practices, and North Korean resistance to these changes was a factor in our decision to suspend our program there last spring. But we know you have further questions about these issues, we were not comfortable having to operate in that situation, and we will do our best to address the considerations involved in those issues.

In closing, let me just offer a personal perspective on these matters. I worked for 5 years as counsel to the Senate Foreign Relations Committee. I know firsthand the responsibilities you feel to assure that the international organizations supported by U.S. contributions can be relied on to do the important work they are committed to doing. It is my full-time job to facilitate the transparency and accountability of UNDP to the U.S. Government and to the Congress, and to you Senators in particular, and I hope you agree that our responsiveness to your investigation makes clear how seriously we take this responsibility.

I thank you.

Senator LEVIN. Thank you, Mr. Tipson. Mr. Benson.

TESTIMONY OF ROBERT BENSON,[1] DIRECTOR, UNITED NATIONS ETHICS OFFICE, NEW YORK, NEW YORK

Mr. BENSON. Thank you. Senators, this is the first opportunity I have had to appear before a U.S. Senate Subcommittee, and I welcome the opportunity. I have been required to appear in order to brief this Subcommittee on the jurisdiction of the Ethics Office and the adequacy of whistleblower protection within the U.N. System. We also have been requested to provide a written briefing statement, which we have done.

In accordance with the U.N. policy regarding U.N. officials required to appear before legislative bodies of member states, the Secretary-General has approved my attendance in order to provide information to this Subcommittee, provided, as is indicated, it is achieved by means of a briefing session conducted on an informal basis.

The Ethics Office of the United Nations Secretariat was established and became operational on January 1, 2006, discharging its mandate as set out in the applicable Secretary-General bulletin. On May 1, 2007, as you have indicated, I was appointed as the United Nations' first Director of Ethics. However, prior to that time, I had come to the United Nations with 17 years of public sector experience working at the Federal level in Canada and the last 3 years working for an independent Office of the Ethics Commissioner, which was an entity of the Parliament of Canada. Myself personally, I am a lawyer by training, and through my career I have worked in the Judge Advocate General's branch of the Canadian Armed Forces. I worked in the Federal Department of Justice where my client group at that time, my clients, were the Royal Canadian Mounted Police and the Security Service. And then at some point in time I changed career paths and went into being a senior manager within the Canadian Government and finally ended up my career working in the Ethics Commissioner's office in the Parliament of Canada. That ends my opening statement.

[1] The prepared statement of Mr. Benson appears in the Appendix on page 107.

Senator LEVIN. Thank you so much, Mr. Benson.

The U.S. Mission to the U.N. made requests for audit access relative to the North Korea issue, and it was not given what it asked for. Our U.N. representatives were denied the kind of access that they requested, and I am just wondering why.

Mr. TIPSON. Mr. Chairman, just to clarify, I want to make clear that we understand—we are here in part to understand, not simply to respond and defend.

Senator LEVIN. OK.

Mr. TIPSON. And we understand the importance of the objective of facilitating access to member states to the audits. As I have just indicated, we are leading the charge in trying to get that policy adopted, not only in UNDP but in other parts of the United Nations. It is a policy that has to be approved by our Executive Board. We have a board of 36 countries, and so it is not a matter of simply taking a pen and changing the policy overnight. I can tell you that this very week our leader is in the process of trying to propose that policy be adopted.

Senator LEVIN. Are you privy to the reasons for the policy?

Mr. TIPSON. Well, I am going to defer to one of my colleagues who has much more experience dealing with audits, but let me just say on the basis of experience in the private sector for the last 23 years that audits are a key way in which boards keep track of the honesty of what they are getting from all the parts of the organization. But one of the things that audits need to accomplish is to verify the validity of the systems that the organization uses to report the numbers, the funds, what happens to the money in those organizations. And the concern with the way Ambassador Wallace characterized the situation is that if the U.S. Government cannot rely on the representation of UNDP with respect to key financial issues, they simply will not take what we say as being reliable information unless there is somehow an independent audit of that information. Then it is a very difficult way to have a relationship, and it is really very rare that governments take that position or that becomes the style with which we have to exchange information.

As your staff will tell you, we have taken them through in sometimes exhaustive detail what our systems do and how they are structured to accomplish them. And the audits that have occurred would have shown up if those systems were not reliable, if that were indeed the case.

I know that does not fully respond to the question you asked, and I will ask my colleague to try to get into the question of why there is a tendency to want to limit access to audits.

Senator LEVIN. OK. Mr. Morrison.

Mr. MORRISON. Thank you. As Mr. Tipson just said, to respond to the question why is UNDP hesitant, traditionally the hesitancy has come from the understanding at UNDP, and I think in other parts of the U.N. Funds and Programs as well, that the internal audits are management tools that then feed into an external audit process which is available to member states, and that is, my understanding is that is how the member states set up the system so it is actually two-tiered, with the internal audits being just for UNDP management and the external audits being widely available to

member states. The external auditors have full access to the internal audit.

In terms of why they are considered management tools, and I think the question that has been asked throughout the morning, why does the Secretariat make their audits—or other organizations, not just the Secretariat, make their audits fully available, and the U.N. Funds and Programs up to this point have had a more restrictive regime, UNDP's view on this—and, again, it is listening to its member states—is that we are a field-based organization. We run operations in 166 countries. Our primary partner in those countries is the national government. We run programs in some cases which national governments consider very sensitive. I am thinking of gender programs that we run in some countries or democratic governance programs that we run in some countries. The strong sense that we are getting from our Executive Board, and particularly the program countries in which we work, is that they are reluctant to have what is, in effect, very frank comments on their own programs made publicly available.

I think as you know, Kemal Dervis has a proposal in front of the Executive Board this week that they are debating today and tomorrow to try to square the circle of the very legitimate demands for increased oversight with those feelings from the program countries.

Senator LEVIN. Has there ever been a resolution at the U.N. to change the policy relative to audits that was voted on by the General Assembly?

Mr. MORRISON. My understanding is that as part of or subsequent to the Oil-for-Food affair, the General Assembly did, in fact, require the Secretariat to make its audits public.

Senator LEVIN. Just the Secretariat, but not the U.N. Funds and Programs, and——

Mr. MORRISON. No, not the U.N. Funds and Programs. In such matters, we are governed by our Executive Board.

Senator LEVIN. Not by the General Assembly.

Mr. MORRISON. That is my understanding.

Senator LEVIN. And has anyone on the Executive Board, including the United States, ever made a motion that those internal audits be made public?

Mr. MORRISON. There is no question that the United States and several other countries, primarily on the donor side, have moved very strongly to increase access to internal audits. There has been equally strong feelings on the other side, primarily but not exclusively the program countries, the recipient countries, that do not want to have such a broad access regime. So the proposal before the Executive Board today and tomorrow, which I think both Senator Coleman and yourself, Mr. Chairman, have characterized as a step in the right direction, although not going far enough—because I think Senator Coleman listed three or four additional steps that you would like to see. In any event, that is the proposal that our Administrator has put before our governing council, and we very much hope that it carries. And I know that he spoke personally with both of you on that.

Senator LEVIN. In your opening statement, Mr. Tipson, you said that the UNDP did not transfer tens of millions of dollars to the North Korean Government. How many dollars were transferred?

Mr. TIPSON. In our written statement, we have tried to summarize the various accounts, the various summaries of funds that went—with respect to the NCC for the UNDP account, which has been the subject of such controversy, the total amount of money that we transferred to that account over the 10-year period covered in that chart is, I think, $376,000. It was not—and we can discuss how development projects are done in North Korea that indicate why that is not a larger channel of funding that goes through that account.

Senator LEVIN. Well, now, you heard Ambassador Wallace say that the UNDP sent perhaps much more than $7 million in cash to the UNDP-related account. Did you hear him?

Mr. TIPSON. Yes.

Senator LEVIN. Do you have a reaction to that?

Mr. TIPSON. Well, again, our records are pretty clear on what went into that account, and it is a matter of the reliability of our systems, which we take great pride in, frankly, in knowing how much money went into that account. It is not possible that the money that is being discussed, either $2.7 million or $7 million, or higher amounts that have been discussed, were money that came from the UNDP.

Senator LEVIN. Into that specific account?

Mr. TIPSON. That is right.

Senator LEVIN. OK. Thank you. Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman, and I appreciate, gentlemen, the opportunity for this briefing, and I look forward to this as a conversation that we would like a little help on figuring out where do we go to make sure that in other countries the imprimatur of the U.N. is not being used for shell organizations, money laundering, and transferring cash.

I want to get back to this issue about the amount of dollars, and part of the confusion is the internal auditors—I was looking at the Subcommittee report. It talks about the difference, by the way, between—not that sharp, but NEX and DEX. There are some programs that you give the money directly to the North Koreans, and others that you provide the money—you do it yourself. And so the testimony is that most of the programs in North Korea you were doing, so you were not turning over cash to the North Koreans. Is that correct?

Mr. TIPSON. Can I have my colleague David Lockwood answer?

Senator COLEMAN. Mr. Lockwood.

Mr. LOCKWOOD. That is absolutely correct, Senator. The norm across the world is that most programs are executed with governments who have full responsibility for their——

Senator COLEMAN. And is that NEX or DEX? Which one is it?

Mr. LOCKWOOD. That is called NEX.

Senator COLEMAN. NEX.

Mr. LOCKWOOD. National execution.

Senator COLEMAN. National execution.

Mr. LOCKWOOD. In the case of North Korea, they also preferred that route, but at our insistence, large amounts of the money were, in fact, directly executed by UNDP so that we could have direct controls in place.

Senator COLEMAN. But the problem we have is if you looked at your internal auditing, you have it broken up as 48 percent—I have the chart, 48 percent is going to NEX and 40 percent DEX.

Mr. LOCKWOOD. That is correct, Senator.

Senator COLEMAN. In the chart.

Mr. LOCKWOOD. The chart is correct.

Senator COLEMAN. So the auditors were not aware of the internal arrangements?

Mr. LOCKWOOD. I think the auditors were aware of the internal arrangements, and the distinction, of course, is that within what is formally nationally executed, the government in turn has asked UNDP, at our insistence, to execute a large proportion—the largest proportion of that ourselves, which we also called direct execution.

Mr. TIPSON. Indeed, there is a sentence right here, Senator: "The office is providing 100 percent support services to NEX projects." In other words, we executed on their behalf, even though it was called national execution.

Senator COLEMAN. But when you say executed, are you talking about executing by employees in North Korea, by the program in North Korea? Is that correct?

Mr. TIPSON. The overall employee base.

Senator COLEMAN. And one of our concerns here—and, again, you said simply a way of operating—the North Koreans, they were North Korean agents. They picked the employees. They ran the programs. Is that a fair statement?

Mr. TIPSON. Senator, it is fundamental to the way we work in development that it is a matter of capacity building. It is the locals we are trying to create the capabilities to do development.

Senator COLEMAN. But there is a difference between the government supplying government agents—I am not talking about development. There are other programs in which you actually hire locals, and you are hiring people. But the difference between those folks and the government saying this is who is going to sit in that position, they are agents of the government, that is not development. That is the government simply saying here is who you are going to hire and here is who is going to run the program.

Mr. TIPSON. But the test then would be whether the work gets done. The objective is to accomplish development projects, and Mr. Morrison, of course, is the one with the experience in North Korea. But the test is whether those employees are actually doing the work they are paid for.

Senator COLEMAN. But, again, the conversation, to say that is capacity building when a government tells you these are the people you are hiring, I don't think that—I am a former mayor. That is not capacity building. It is a conversation, not a debate.

Mr. TIPSON. It is.

Senator COLEMAN. I am wondering if we can go to the chart with the application of payment order,[1] JP Morgan Chase Bank of New York. One of the things that the Subcommittee found, the North Koreans have admitted, is that they have created this International Finance and Trade Joint Company, which is a shell company, to use the transfer of dollars from North Korea to embassies

[1] See Exhibit 8, which appears in the Appendix on page 215.

in New York and other places around—Paris, whatever. And I understand in our conversations you were not aware of this arrangement. Is that a fair statement?

Mr. LOCKWOOD. We were not aware at all of this arrangement.

Senator COLEMAN. And, in fact, it went forward. Were you aware of the International Finance and Trade Joint Company?

Mr. LOCKWOOD. I think we can all say we were not aware of that company.

Senator COLEMAN. Are there some procedural things that could be put in place that—I am thinking of co-signing checks or doing something that would put you in a better place, other U.N. agencies in a better place for their seal—this is the Good Housekeeping Seal. Money is being transferred by financial institutions. It says B/I, National Coordinating Committee for UNDP, message, payment for purchase of building in Canada. It looks like a pretty basic transaction. We know the buildings were not purchased. We don't know where the money went. But is there a system that you have thought about that would help make sure that your good name—your Good Housekeeping Seal is not abused by countries like North Korea or other places in the world?

Mr. TIPSON. One of the recommendations that your staff makes in this report is that it be accomplished by changing the structure of how these accounts are managed and giving development agencies like UNDP co-signing authority so that actually the money is jointly controlled by the development agency. That is something we are going to have to consider as a structural change. I will say that is a significant challenge for all development agencies to get countries to agree that that is the right approach to take. But I think it is one that we are going to have to consider very carefully.

There are really two problems here. One is the money and the other is the name. And I think we are able to protect ourselves from the abuse of the money by making sure we know how much goes in and how much does not go in.

As far as the name goes, it is very difficult to prevent any government from using our name on any account they want to use, and that would not even be solved by the structural approach proposed by the staff, although it would accomplish other objectives.

Senator COLEMAN. Just one other chart, perhaps. This is Sindok Trading. This apparently is a legitimate transaction of UNDP, so about $229,000, almost $330,000. And the name of the applicant on this one is the International Finance and Trade Joint Company. So you have the shell company being used to transit a legitimate transaction.

Is there in place any process or something that would kind of alert you to the fact that you may have a shell company? Again, I am trying to find out are there things we can do to make sure that we don't give legitimacy to what we have found out to be shell companies that were used for the purpose of laundering cash?

Mr. TIPSON. Can I ask Mr. Morrison to respond?

Senator COLEMAN. Absolutely.

Mr. MORRISON. Sure. Senator Coleman, I think that we have researched this particular transaction quite extensively. It was a legitimate transaction. We got what we paid for in the $229,000. We frankly did not know that when we went to the bank and said

would you please pay this company in Singapore that they were sending the money via an entity that has for us subsequently been identified as an entity involved in financial shenanigans, about which, of course, we are not happy.

There is a recommendation in the Staff Report in regards to a separate issue, which is our financial transactions with an entity called Zang Lok, which does recommend that the various entities and the various organizations in the international community—UN and presumably non-UN—make stronger efforts to share information about which entities may be up to no good. And we fully support that recommendation.

Senator COLEMAN. Thank you, Mr. Morrison.

Mr. Benson, if I may, when you first became aware of the Shkurtaj case, I believe you indicated that they made a prima facie case of retaliation against UNDP. Is that correct?

Mr. BENSON. That is correct.

Senator COLEMAN. And you urged UNDP to submit it to the jurisdiction of your office in the best interest of the United Nations. They did not do so. This debate we are having about whether the Secretary-General's policy should apply—and let me, again, be very clear. My big concern is that the UNDP policy in place certainly did not cover contractors. And that is a big part of your operation, contractors who perform core functions. And I guess anyone can answer this, then. Is there any question that contractors, individuals performing core functions should be covered by whistleblower protections? Anyone arguing about that? Mr. Benson.

Mr. BENSON. From my perspective running the Ethics Office, I do not have a problem with that. As was indicated earlier in some testimony, individuals that are performing staff-related functions or core functions should be afforded. So issues that arise and come before me, I will address them in that context.

Senator COLEMAN. If somebody is reporting to somebody a case, you want to make sure that you are able to operate independently. A UNDP ethics officer reports to the executive head of the program. Is that correct?

Mr. TIPSON. That is right.

Mr. BENSON. That is correct.

Senator COLEMAN. And who do you report to, Mr. Benson?

Mr. BENSON. I report to the Secretary-General.

Senator COLEMAN. Would it be fair to say that you have a high measure, a high degree—gentlemen, would you argue that there is a high degree of independence, that if an employee is going to report to a guy who is reporting to the head of the program that you have got complaints about, would it be fair to say that it would be a better system to have this employee go to somebody where he wouldn't be worried that the guy who could get rid of him or not renew the contract is going to make some judgment? Would you argue that it is a better system to have that higher degree of independence?

Mr. TIPSON. One of the innovations, I think, by the Secretary-General's bulletin in December is the idea that the—Mr. Benson will chair an ethics committee, to which appeals can be taken by employees who feel they haven't been satisfied by their own organizations. Obviously, it is important that we have a strong program

in our own entity and that it does protect people against that kind of retaliation. But this at least would provide a two-step process for people who felt they weren't fairly treated.

Senator COLEMAN. Could you respond then to the concern about contractors? Are we going to see some change in that program?

Mr. TIPSON. Yes.

Senator COLEMAN. Mr. Morrison.

Mr. MORRISON. We have been discussing this very recently, and I think as you know, the strengthened UNDP protections against retaliation came out as part of a legal framework that UNDP had been working on for some time. In the work program, that was a legal framework covering staff. The next part of the work program was supposed to be a legal framework actually covering contractors.

Now, you have said contractors performing core functions. Mr. Benson has said he would have no difficulty with that. This is a very difficult issue. I cannot speak for where we are going to come out. I personally would not have any difficulty with that either.

You have listed some statistics about the number of contractors employed within the U.N. System, and we need to be honest. Some of those contractors are on long-term contracts. They are not performing core functions, but they are with the organization, if you will, for a long time. And so we have begun an internal dialogue as to what is correct as part of a coming legal framework covering contractors.

Senator COLEMAN. I would just suggest that the current framework is wholly insufficient in providing the kind of protection that we would all want to have in place. Mr. Tipson, going back to your days on the Foreign Relations Committee——

Mr. TIPSON. Right.

Senator COLEMAN. We want what we would all say is the kind of protection that encourages individuals to come forward without fear of retaliation.

Gentlemen, I thank you.

Senator LEVIN. Thank you. Dr. Coburn.

Senator COBURN. Thank you. I caught some of this on the TV, but I just want to kind of review and see if I have got your testimony. You basically deny all the findings in the report that this Subcommittee has issued. It is your statement also that all programs in North Korea, including USAID, operate with the same weaknesses that we have seen in UNDP, i.e., payment of cash and hard currency instead of local currency.

If that is the case——

Mr. TIPSON. That is not the case, Senator.

Senator COBURN. All right. Well, then, correct what my assumption was based on what I heard from my office just a minute ago.

Mr. TIPSON. Well, I think there is a confusion there between hard currency and cash. We did not deal in cash in North Korea, hard currency being convertible currency.

Senator COBURN. Right.

Mr. TIPSON. And the requirement by the North Korean Government that said all entities pay in convertible currency.

Senator COBURN. But that is exactly opposite of the rules under which UNDP operates everywhere else, correct?

Mr. TIPSON. We did not have a rule on that subject, and, in fact, it is intended to be flexible enough so that the discretion of the local office can determine what the right approach may be in a case of that kind. But the challenge if it is the other way around, Senator, if you require to pay in only local currency, in the case of North Korea the only place to get local currency is from the North Korean bank. And if the concern is that they will skim off a piece of that hard currency for other purposes and only give you—they can set the exchange rate in the case of North Korea.

Senator COBURN. Well, we don't know that they——

Mr. TIPSON. It is not really a protection——

Senator COBURN. When we pay directly to the government, anyhow, the salaries of the people that were employed that were North Koreans. In other words, we didn't directly pay the North Korean employees, did we?

Mr. TIPSON. No. We went through the government. That is right.

Senator COBURN. So we do not know how much they skimmed that way.

Mr. TIPSON. We don't.

Senator COBURN. And so we have no idea. And that is not standard practice everywhere else, is it?

Mr. TIPSON. In my testimony, I mentioned that China, Vietnam, and North Korea all had that policy. Vietnam and China have since abandoned that policy. North Korea is the only country that requires——

Senator COBURN. So three stellar human rights organizations have had that policy.

Mr. TIPSON. When I worked in China with AT&T, in the private sector we had to hire people through a government agency. That is the way China required it to be done.

Senator COBURN. OK. Why should U.S. taxpayers support an organization that provides legitimacy to illegitimate transactions? In other words, based on some of the things that we have seen going on, that went on with UNDP operations in North Korea, in terms of some of the transactions like the $50,000, why should Americans support UNDP's effort there? In other words, we have $100 million in direct, and then we have all these other agencies that put another $140-some million into UNDP—nothing wrong with your goals. But why should we do that?

If somebody is afraid of transparency, absolute transparency, then we ought to really worry about whether we ought to be supporting that agency at all in the first place.

So, it is not a matter of trust. I don't trust Federal Government agencies. That is why I want them transparent. They need to be able to show the American people that they are effective in what they are doing and how they are doing it, and there ought to be some metrics.

So explain to me why you would take a position that says that is on the basis that we don't trust. I don't trust. I readily admit it. And that is what keeps governments open and responsive, is that they are transparent. So why would we take a position that we wouldn't want transparency?

Mr. TIPSON. You shouldn't and we don't. I think the discussion is how do we get to a point where you feel you have sufficient

transparency to have confidence in the information that we are providing to you. We are not there, clearly, and if there are a number of steps that the staff has suggested that would help the process—and, as Senator Coleman has indicated, we really need to have a conversation around these issues to get to a point where you have that level of——

Senator COBURN. You may have answered this already, and forgive me if I am asking—so you have this audit, and you have this governing body, and yet they cannot have a copy of the audit? Explain to me—I am just from Oklahoma; I don't understand that—why the people that is your governing board cannot have a hard copy of the audit of what you are doing.

Mr. TIPSON. In the case of North Korea, which, of course, we are talking about, in 2006 there was a request for the audits, and on an extraordinary basis, the Administrator did make audit access available to the U.S. Government so that they could confirm the content of the audit.

Senator COBURN. OK. But that is not the point. The point is: Why would that be an extraordinary basis that we get to see how the money is spent? Why is that extraordinary?

Mr. TIPSON. Well, one reason that we are advocating that policy be changed is obviously unless you feel you have access to them, you are not satisfied that it is sufficiently transparent.

Senator COBURN. We shouldn't and nobody——

Mr. TIPSON. But I think when you were out of the room, Mr. Morrison was trying to explain the original rationale for why audits, internal audits, can be considered to contain the kinds of sensitive information that are best left confidential.

Under the current circumstances, to change that policy we have to get the Executive Board of our organization to agree to go along. We are well on the way to doing that, but it is a matter of our leadership persuading the governing board of our organization that that is a policy we should adopt.

And that is his posture with respect to other——

Senator COBURN. I would hope that the realization is present among you today that there is a group of us in the U.S. Senate that, if, in fact, that does not become the policy, it is going to become our policy.

That there is a U.S. Federal law right now called the Accountability and Transparency Act that is publishing today how all the money that this Federal Government is spending, and if you are not in compliance with that, then you are not in compliance with the law, which will put at jeopardy funds from the American Government to UNDP.

So I would think it would be in your best interest to become as transparent as you can. Nobody wants to know somebody's Social Security number. Nobody wants to know the details under a certain contract. But the U.N. routinely—not UNDP but the U.N. routinely does not share a contract when it does not have anything to do with private actions or significant proprietary information on contracting, and they still refuse to do so.

So I am not going to allow UNDP or the U.N. to hide behind the idea that there is so much proprietary stuff that we cannot know how our money is spent. And my suggestion is that you all move

in that direction because as long as I am going to be a Senator, I am going to keep attaching that thing and eventually the American people are going to see that—they are not happy with the way we spend money domestically, and I guarantee you there is less support for how we spend it internationally. And it would be in—to do what you want to accomplish, which is to truly impact and help people who need help, the best way to do that is do that in the light, open, and taking the criticism, and that builds understanding. The lack of transparency implies and the lack of desire for transparency implies there is something to hide. And that may not be a great basis under which to have a relationship, but the fact is that is the basis that we have now because of things like North Korea and the fact that a U.N. agency was hoodwinked and was utilized to accomplish things other than what they intended to.

Mr. TIPSON. Senator, we take the point. I hope, however, we can also get to a relationship where, once you do have that level of access and confidence, we can deal in a much more open way and you will have confidence in the rest of the information that we share with you.

Senator COBURN. I will give you a great example. USAID, malaria in Africa, totally closed, not transparent, most of the money went for bureaucracies, not for treatment and care for black African pregnant women or their children. This is just the opposite. They have a transparent website. We can see how much money they are spending. We can see their contracts. We can see what they are doing now. So we went from total lack of transparency to transparency with me saying, "Atta boy, keep going. If I can get you more money, I will."

So if, in fact, you become transparent and what you are doing is accomplishing something that really moves, then you won't have any problem.

Mr. MORRISON. Could I address that point, Senator?

Senator COBURN. Sure.

Mr. MORRISON. Because that gets to the point of other things than internal audit access create this level of transparency. We are actually implementing country by country the requirement that our country offices put on websites a whole range of information relating to contracts and procurements and so on, for exactly the purpose that you say, so people can see the details of what is going on in that country and have some level of confidence that it is going for the right purpose.

We are also, for example, piloting a possible way of allowing access to information where major countries, donor countries like the United States can actually get into our system, look at our financial systems and have direct access to understand the kinds of information that they can rely on as to what is happening with the money. That is not obviously an easy thing for security reasons to implement, but that is one of the things that we are working on implementing. So we are trying to move in that direction.

Senator COBURN. Well, my last comment, Mr. Chairman, is I think that Senator Coleman raises a great point on whistleblowers. If you do not have the capability to raise the issue and then be protected, we will never have transparency. And that has to get fixed.

Senator LEVIN. Did you want to comment, Mr. Morrison.

Mr. MORRISON. I was just going to add on the transparency point because in our view it is very closely linked to your role in oversight, and tie this back to the audit dialogue we were having a moment ago. And I think we have been—I hope you are clear where we stand on the audit issue, and it is before the board and so on.

But it strikes us that an audit is a snapshot of a country office or a headquarters unit at a moment in time, and that is getting you folks access to that is a very good way to enable your oversight.

But I would say that in countries of particular concern, North Korea being one of them but Burma being another one, my colleague Mr. Lockwood is reasonably well known down here on the Hill because he has come down multiple times to talk about our operations in Burma. there is an ongoing dialogue with the United States as a very close partner and one of our largest donors.

Similarly, on North Korea, we were engaged over a number of years in a very close dialogue with countries that had expressed concern, Japan being the leader, but also in 2004 we were engaged in a dialogue with the U.S. mission who had sought information on our operations in North Korea. We explained our staffing practices. We explained NEX versus DEX and that we, in fact, controlled all of that expenditure and that it was auditable. We gave all details of programs and budgets and so on.

So the point that I am trying to make is that audits and access to audits are one issue—but I would like the Partnership Bureau, we engage on an ongoing basis with donors all of the time.

Senator LEVIN. Let me pick up that NEX/DEX. Could you put that chart back up there again, the one with the—yes, that one. Can you see—this is your document.

Mr. MORRISON. Yes.

Senator LEVIN. Can you understand why there might be some confusion about that?

Mr. MORRISON. I think I can understand why there is a lot of confusion about many parts of our operations.

Senator LEVIN. Well, how about that one particular chart?

Mr. MORRISON. Well, I am trying to say we are hard to understand, and I would acknowledge that.

The left pie chart divides NEX versus DEX. The intent of the right pie chart is to show that 100 percent of the NEX expenditure was actually done by UNDP, meaning it is fully auditable. We did the procurement and so on. That is also the intent of the text down below.

Yes, I can see why someone who does not know what DEX is and does not know what NEX is might not have picked that up instantly.

Senator LEVIN. Well, even somebody who does know what NEX is and DEX is could be confused by it. The way you described this was—the reason that this was all DEX, U.N. controlled, is because North Korea asked UNDP, at UNDP's insistence, to have the UNDP do the administration. So there is a little bit of diplomatic dance going on here. But why couldn't that have been explained more carefully there? Why couldn't you have made the same statement on that chart that you made here today, that this is all administered by us at the request of the U.N.?

Mr. MORRISON. That is from an internal audit report, so it was not available to member states. At roughly the same time, because we are talking about 2004, the UNDP did engage with the U.S. mission to the U.N. on exactly this issue and explained in an e-mail exchange and a meeting the difference between NEX versus DEX and that all of the spending was done by us.

Mr. TIPSON. And the United States supported that approach for the very reasons that you——

Senator LEVIN. Are you saying that the USUN mission in 2004 was told that all of the North Korean funds were being controlled and administered by UNDP?

Mr. MORRISON. Yes, I am, Senator.

Senator LEVIN. Well, I don't know. Ambassador Wallace sure didn't seem to know that. I mean, he got his $7 million figure by just simply multiplying 48 percent times $12 million. I don't know if you want to look at it—you are probably familiar with it. But Exhibit 5 says, "Out of the total budget value of ongoing projects of $12 million, 48 percent is NEX."[1] Well, if somebody reads that, it says 48 percent is NEX, so you multiply 48 percent times $12 million, you can get roughly the $7 million that Ambassador Wallace says. Now you are saying in 2004 they were told no, that is not the way it is, take a look at the right-hand side of the chart. Take a look at the line that says the office is providing 100 percent support services.

Well, I don't think the chart is very clear to begin with, I've got to tell you. But if you have a conversation with us explaining it and that is an internal document—was Ambassador Wallace not there in 2004?

Mr. MORRISON. I don't know whether he was or not.

Mr. TIPSON. No, he wasn't.

Senator LEVIN. Well, when the question was raised, whenever the letter came from him to you, did you sit down with Ambassador Wallace and say, "we told you folks in 2004 that you cannot just multiply $12 million by 48 percent to get $7 million because, folks, we are administering the whole thing, take a look at the line below it, take a look at the right-hand chart, which says 0 percent?" Did you explain that to him when he wrote you?

Mr. MORRISON. To tell you the truth, Senator, I have just learned where the $7 million figure came from. I had no idea up until now where that figure came from.

Senator LEVIN. No, but did you ask him when the letter came or it became public?

Mr. MORRISON. I was not in the meetings. We responded by saying that we did not—I think he was under the impression that the $7 million all went to the National Coordinating Committee for UNDP. We responded by checking our own records and learning that in the period that he was talking about, $175,000 went to the NCC for UNDP. So we had no idea where he got the figure.

Senator LEVIN. But did he ask you or did you ask him? I mean, you are in the same town, aren't you?

Mr. MORRISON. I think in your opening remarks, you used the phrase "accusatory." I think by this time it was June 2006, and we

[1] See Exhibit 5, which appears in the Appendix on page 207.

were quite far apart on our understanding of the issues, and most of the dialogue was taking place via formal letter.

Mr. TIPSON. Something went off the track, Senator, and that was when Ambassador Khalilzad and our boss, Kemal Dervis, said we are not getting anywhere with this exchange of letters, let's create an independent commission that can look into it and will solve our questions here. And that commission, of course, will report soon.

Senator LEVIN. Who was it in 2004, do you know who was briefed on this at the U.S. mission?

Mr. TIPSON. Advisor Robert Shapiro.

Senator LEVIN. Robert Shapiro. OK. I am over my time limit. Do you want to pick up?

Senator COLEMAN. My concern, I keep getting back to the idea that North Korean officials are the folks who are operating the program. I am not sure there is much difference between NEX and DEX. If, in fact, UNDP is controlled by the North Koreans in North Korea, I am not sure it makes a big difference.

We are making appropriations of significant amounts of U.S. taxpayer dollars for UNDP. I thought the figure was $100 million. Just a couple days ago, maybe yesterday, I found it was $247 million in 2005. It should be the reasonable expectation of working with your partners and funders that they have access to all the information that they need. I think that is what my colleague, Senator Coburn, is raising—$247 million, that is a lot of money, even for Washington. And I think what we are talking about here is simply a reasonable expectation as funders and partners that, in fact, there is full accountability. We understand the limits of audits. We deal with this stuff all the time. This government at this time is one that has made some very strong statements about accountability and transparency and use of taxpayer dollars about that. My colleague, the Chairman, is a champion of knowing how money is spent and that it is spent wisely. We have raised some issues today about use of the UNDP imprimatur. We raised issues about access to audits. We have raised issues about whistleblowers. And I just think it is important, knowing the significant contribution we make, that they are adequately addressed so that we can kind of walk out of this together and be in a situation, by the way, where we can respond to the question about what are we accomplishing. We can do it using metrics. And I think if we do that, we are all going to be better served.

Thank you.

Mr. TIPSON. I think we are on the same page, Senator.

Senator LEVIN. I fully agree with the need for transparency and open audits and having audits and sharing audits. I totally agree with that. But there also is a requirement that there be conversation, and I, for the life of me, don't understand if we are making an allegation about mis-spending money, why we just don't go to the UNDP and say, hey, folks, how is it that this money is getting into the hands of the North Koreans or that they are controlling it? Apparently the answer is there was a conversation back in 2004.

Mr. TIPSON. Senator, I think one of the contributions of this inquiry hopefully will be to get that communication back on track.

Senator LEVIN. Well, I hope it will be. Just on the NEX/DEX issue, what is the difference?

Mr. TIPSON. National execution and——

Senator LEVIN. I think I know the difference, but is there a difference between the two? Is it real?

Mr. TIPSON. Yes.

Mr. LOCKWOOD. There is a real difference.

Senator LEVIN. Even in a situation where a country is picking the employees for the UNDP?

Mr. LOCKWOOD. In most countries, national execution is implemented by government ministries or departments themselves. They obviously hire their own staff to do their own work, and we are partners in that development process, bringing often technical support behind the scenes.

In the case of some countries, especially those emerging from crisis where you have capacity issues, UNDP very commonly is then asked by government—that is a polite way or a diplomatic way of putting it, as you said—to assist in that through direct execution, where we then——

Senator LEVIN. Is that direct execution using their people that they pick for you?

Mr. LOCKWOOD. No. That is absolutely unique to North Korea.

Senator LEVIN. But that was what was done in North Korea.

Mr. LOCKWOOD. Because there are no other people in North Korea.

Mr. TIPSON. Well, among the people working there would be the North Korean nationals.

Senator LEVIN. Among, but it wouldn't be all of them?

Mr. MORRISON. No, not at all. The office is staffed with a mix of internationals and nationals. In the case of North Korea, Mr. Morrison would know the exact figures better than I would, but I do know that when we shut down, we had eight internationals and 20 nationals, including drivers and so on. Project visits, for example, are conducted with internationals. Signing of checks, internationals.

Senator LEVIN. Who would be the controlling folks in the office? Who would be the top people? The internationals or the nationals?

Mr. MORRISON. No. The internationals. We had a resident coordinator. Reporting to that person was someone that headed the programs, someone that headed the operations. There is a deputy reservation representative. So you have a structure in all UNDP offices worldwide where the key managerial functions are staffed by internationals, and the support staff plus the program staff, those actually doing the projects, working in very close collaboration with the Ministry of Health or the Ministry of Agriculture and so on are nationals.

Senator LEVIN. Just one question on the ethics, because there was a request from, as I understand it, the Ethics Office. The Director of the U.N. Ethics Office, as I understand it, urged UNDP to voluntarily submit Mr. Shkurtaj's case to their office, and that was rejected. You are all sitting here, you are all friends. What was the reason you folks rejected the request?

Mr. TIPSON. There was a formal jurisdictional issue with respect to the jurisdiction of the Ethics Office, which Mr. Benson could

probably better address. The upshot is that his case will be looked into by this independent review and potentially referred to the U.N. Ethics Office.

Senator LEVIN. Are you satisfied with the answer you got from UNDP on the request that the case be referred to your office? And if you were not satisfied, did you make your dissatisfaction known, and to whom?

Mr. BENSON. I think to answer that question, the information that transpired in that wasn't released by my office. The information went out other than through me. But obviously the letters that were in confidence and provided to the individual did make it out into the public area.

The communication between myself and UNDP did not get into the facts of the case—couldn't. I have to maintain confidentiality. But on the basis of the information that I obtained in conducting the review that I did, I met on two occasions with Mr. Dervis and Mr. Melkert, and through that we discussed the process of the protection for retaliation.

I indicated at that time and I have indicated subsequent to that that I did not have the jurisdiction. As I went through it myself coming into the United Nations—and I should say I have said this also publicly out there, that when I came into the United Nations, I expected the jurisdiction would be United Nations. To me the United Nations was the United Nations. But when I got in and faced with actually having to discharge this mandate with responsibility, as issues come before me, then I have to look at it, and I look at it from the Charter on down. I look, as to where my mandate flows. So I was able to conclude myself that I didn't have jurisdiction, but in light of the fact that this individual had come into the office, and in light of the fact that it got into the media, it was well known that I was looking into the matter. And there was actually a press conference that Mr. Morrison had acknowledged that I had been looking—the Ethics Office was looking into it.

But subsequent to that, as I said, the issue of information I had become privy to and the fact that I didn't have jurisdiction, but I felt, as I still do, that in the best interest of the United Nations, if they ceded jurisdiction on this one case and allowed it to proceed, it would be in the best interest. It was then their consideration of that, and they communicated back—I am not privy to what transpired or who they communicated with. But I allowed the opportunity for them to consider, and they communicated back to me that they wished to proceed on their own, which they did.

Senator LEVIN. Thank you. Senator Coleman.

Senator COLEMAN. Do you expect to or do you anticipate returning to North Korea? Is there discussion about that?

Mr. LOCKWOOD. I think that is a decision that our Executive Board would make. I am sure at this point they are not ready to even discuss that issue pending the outcome of various reviews that are underway. But that is not a position that I think we as the Secretariat of the organization, would want to take. It is a very complicated decision.

Senator COLEMAN. Maybe this is difficult to answer now, but would you have the ability to change anything, where we are at today, if you were to go back in tomorrow?

Mr. LOCKWOOD. I think it is perfectly clear to all that we would not go back in under the old conditions under which we worked. We suspended the program because the government would not accede to a change in those conditions. And I am sure the board itself would not want us to go back there unless those conditions changed.

Senator COLEMAN. I appreciate that, and without getting into NEX and DEX, just to follow up. Unlike other countries where you hire nationals through some hiring process, which I think does build development, I consider these folks to be North Korean officials. I consider them no different than they are working in a ministry, and they are the finance officer and the IT manager and the general services administrative officer and bank signators. If you look at it, it is their program. And, again, it is the only conditions in which it could operate.

We may have exhausted that discussion, but I appreciate your response, Mr. Lockwood, that if we could go back in, we have to understand that there are going to have to be some changes in the way in which we operate. Thank you, gentlemen.

Senator LEVIN. Thank you. Do any of you want to add anything to the conversation before we adjourn?

Mr. TIPSON. I hope it will be a robust conversation going forward, not just with this Subcommittee but with the U.S. mission and others in the U.S. Government.

Senator LEVIN. We thank you for coming. We know it is voluntary. We know it is in the form of a conversation. It was very helpful, regardless of what you call it, designate it, or label it. Thank you.

Mr. MORRISON. Thank you.

Mr. BENSON. Thank you.

Mr. LOCKWOOD. Thank you.

Senator LEVIN. We will stand adjourned.

[Whereupon, at 12:59 p.m., the Subcommittee was adjourned.]

APPENDIX

Ambassador Zalmay Khalilzad

Statement to the Senate Committee on Homeland Security and Governmental Affairs

Permanent Subcommittee on Investigations

January 24, 2008

Mr. Chairman, distinguished members, thank you for this opportunity to discuss our efforts to promote transparency and accountability within the United Nations. The United States, as one of the founders of this institution, designed the UN to maintain international peace and security, promote economic and social advancement, and reaffirm faith in fundamental human rights. Though we all know its limitations, it serves our interests in many ways. I have personally seen in Afghanistan and Iraq the significant contribution the United Nations can make when it has the right mandate and the right leadership in the field. The United States has a great interest in ensuring that the United Nations succeeds as an institution.

When I testified before the Senate Foreign Relations Committee on March 15th last year, as the President's nominee to serve as the United States Permanent Representative to the United Nations, I said that one of my principal goals in New York would be to promote effective, efficient, transparent, accountable, and ethical management of the United Nations. Since my arrival at the U.S. Mission last spring, my staff and I have been striving to fulfill this objective, focusing on a number of key UN management reforms in order to make the UN more effective and to ensure that the U.S. taxpayers receive value for the money we pay in assessed and voluntary contributions.

In my opening remarks today, I would like to cite four recent achievements related to reform that apply to the UN in general: establishment of the Independent Audit Advisory Committee (IAAC); extension of the UN ethics code to apply overall to the UN system, including the UN Funds and Programs; continuation of the work of the United Nations Procurement Task Force; and the establishment of a new framework for mandate review.

In addition, the U.S. Mission to the United Nations (USUN) is also seeking to improve the effectiveness of the UN Funds, Programs and Specialized Agencies, through needed reforms. In that regard, I would like to say a few words about the United Nations Transparency and Accountability Initiative (UNTAI) pursued by USUN. Then, I will turn to questions concerning the UN Development Program's activities in North Korea and the actions that USUN has taken in response.

In September 2005, President Bush and other world leaders, meeting at the World Summit in New York, agreed on the need for extensive UN Secretariat and management reforms, including the establishment of an independent advisory committee that would advise the General Assembly on ways to improve internal controls and enhance the independence of the UN's oversight

structures. The first achievement I would like to cite is the establishment of the Independent Audit Advisory Committee, or IAAC. It was created by the General Assembly in December 2005 and the Committee's terms of reference were finalized in late August 2007. In November of last year, the General Assembly elected five individuals to serve as the first members of the IAAC, including Mr. David M. Walker of the United States, who is both the Comptroller General of the U.S. and current head of the U.S. Government Accountability Office. Mr. Walker and the four other IAAC members, all of whom have extensive experience in audit and oversight, are scheduled to meet in New York in the next several weeks to begin their work.

In December of last year, we achieved another significant step toward improving management of the United Nations through Secretary-General Ban's new directive extending the same ethics-related protections afforded to Secretariat staff to employees of United Nations Funds and Programs. Since my arrival in New York, we have been pressing for the development of a system-wide code of ethics for all UN personnel – a goal identified at the September 2005 World Summit as a high priority. Challenges yet remain to agency implementation of the directive that I will discuss, but the December bulletin issued by Secretary-General Ban is a solid step forward toward implementing the highest standards of ethics, integrity, accountability, and transparency at the UN.

A third UN management reform that we are continuing to pursue is ensuring that the UN Procurement Task Force is adequately staffed and funded to carry out its critical task of identifying possible fraud and corruption involving UN contracts. To date, this Task Force has identified 10 significant instances of fraud and corruption involving tainted contracts worth $610 million. Just several weeks ago, the United States led the way in securing agreement from other UN Member States to provide an additional $4.9 million in funding to enable the 18-member Procurement Task Force to pursue possible irregularities in UN purchasing.

The fourth management reform I would like to cite today is the establishment of a new framework to reduce the number of UN mandates. There are some 9700-plus mandates that the UN has created since its inception. Many are no longer relevant but, nevertheless, they are still on the books. In the final months of 2007, Member States recommitted themselves to the task of strengthening and updating the program of work of the UN by reviewing all of the Organization's mandates that are more than five years old. Through this mandate review process, we are hopeful that we can improve the allocation of resources so that the UN can better respond to contemporary requirements. We are currently engaged in consultations on this issue with the President of the General Assembly and other Member States, and expect a report on progress in the coming week.

We have also made strides in other areas of UN management reform, such as reaching agreement this past December on much-needed improvements in the UN's internal justice system, replacing the UN's current information and communications technology system with a new enterprise resource planning system, and strengthening the work of the UN Office of Internal Oversight Services.

Despite these achievements, we still have a long way to go to achieve the UN reform that we want in terms of accountability and transparency. For example, significant work remains to be

done in order to achieve substantive progress in the area of mandate review. In order to track the status of these and other management reforms, USUN has created and maintains a management reform scorecard, which allows us to identify, prioritize, and track key reform priorities.

UN Transparency and Accountability Initiative

We also have a considerable stake in advancing needed reforms with respect to the UN Funds and Programs. The United States provides some $3 billion a year to the UN Funds and Programs and Specialized Agencies. These programs do important and valuable work throughout the world. Therefore we want to ensure that the resources devoted to them are delivered efficiently and effectively, and with oversight and accountability, to the world's neediest people and that they are used for their intended purposes.

To pursue these objectives in practical ways, USUN has launched an initiative – UNTAI, the UN Transparency and Accountability Initiative – with the objective of ensuring that the resources devoted to the Funds and Programs are delivered efficiently and effectively to the world's neediest people. The UNTAI reforms are designed to establish internal standards at least as high as those applied to the Secretariat.

USUN has identified eight areas for action with respect to improving standards in the Funds and Programs:

1) Making available to Member States all internal audits and other reports, such as investigations and evaluations;

2) Providing public access to all relevant documentation related to operations and activities including budget information and procurement activities;

3) Establishing "whistleblower protection" policies;

4) Instituting financial disclosure policies;

5) Establishing effective ethics offices;

6) Providing for the independence of respective internal oversight bodies;

7) Adopting International Public Center Accounting Standards; and

8) Establishing an appropriate level for administrative overhead costs for the funds and programs.

My colleague, Ambassador Mark Wallace, working with the Department of State's Bureau of International Organization Affairs (IO), introduced UNTAI to the UN Funds and Programs and Specialized Agencies in New York. In addition, Ambassador Wallace unveiled the UNTAI

initiative to Member States during the 62nd session of the General Assembly. The response to our UNTAI initiative was positive. Since May of 2007, USUN has made progress in some of eight UNTAI reforms outlined above, including the extension of jurisdiction of the UN Ethics Office over the Funds and Programs (including whistleblower protection), as well as a new policy providing for the availability of prospective internal audit reports to Member States.

USUN and IO have worked to address the refusal of the UN Funds and Programs to make the reports of their internal oversight bodies available to the Member States who sit on their governing bodies. We have consistently maintained that it is impossible for a governing body, on which donor states sit, to execute its fiduciary responsibilities without the kind of detailed budgetary and operational information contained in internal audit reports. Notably, when USUN was given (on-site only) access to some of UNDP's internal audits on an exceptional basis, we discovered numerous instances of programmatic and operational irregularities. Accordingly, we have strongly advocated for a change to the management policy of the Funds and Programs with respect to the release of internal audit reports.

In June 2007, the Government Accountability Office (GAO) released a report which examined oversight and accountability in three of the UN Funds and Programs (UNDP, UNICEF, and the World Food Program) and three of the UN Specialized Agencies (the Food and Agriculture Organization, International Labor Organization, and the World Health Organization). In its report, the GAO recommended that the Secretary of State direct the U.S. Mission to the UN to work with Member States to improve oversight in UN organizations by making audit reports available to governing bodies and establishing independent audit committees that are accountable to those governing bodies. Notably, both of these recommendations coincide with our UNTAI reforms.

As a result of our efforts, in October 2007, the collective management of the UN Funds and Programs announced the development of a new policy which provides for a common approach for the disclosure of internal audit reports to Member States. While we are encouraged by this first step, we will remain diligent in pushing for the implementation of the entire package of reforms and will continue to press for the availability of past audits as they are an important comparative tool.

Issues Concerning UNDP Operations in North Korea

I would now like to turn to the issues concerning North Korea. The mission of the UNDP in North Korea, established in 1979, was to "support and supplement the national efforts of the DPRK at solving the most important problems of their economic development and to promote social progress and better standards of life." This effort reflected the international community's concern for the immense suffering of the people of North Korea. The program was shut down in March 2007, based on a judgment that the DPRK had refused to accept the application of UN rules and regulations that apply across UNDP and that were agreed to by the UNDP Executive Board in January 2007.

In June 2006, the United States raised the issue of the irregularities of UNDP's operations in North Korea with UNDP officials. Specifically, our concerns related to whether the UNDP acted

in North Korea in violation of UN policies and rules by (1) making payments in hard foreign currency; (2) utilizing staff seconded from the North Korean government in core functions; and (3) failing to make adequate project site visits. The purpose of this important "triad" of financial controls was to ensure that development money directed to North Korea would serve its intended beneficiaries – the North Korean people.

On May 31, 2007, a Board of Auditors preliminary inquiry, initiated by the Secretary-General and the UNDP Executive Board, validated USUN concerns in these three areas:

- **Hard currency payments:** "In respect of foreign currency transactions, local payments made in foreign currencies were without requisite authority in the case of UNDP, UNFPA (UN Population Fund) and UNOPS (UN Office for Project Services)."

- **Hiring DPRK personnel in core functions:** "In respect of local hiring, personnel were hired by UNDP, UNFPA, and UNICEF through a government agency of DPRK, contrary to relevant instructions and procedures."

- **Project site visits:** "In respect of free access to local projects, the Board [of Auditors] obtained evidence that project visits had taken place, but were done under the supervision of DPRK authorities, except for one reported project in UNICEF."

In addition, UNDP's Management Response to the preliminary audit admitted that at best one in five of all UNDP projects were visited on a yearly basis. However, because of limitations in authority, access, and expertise of the Board of Auditors, it was not able to render findings or conclusions on a number of other important issues, including whether UNDP aid money reached its intended beneficiaries or was diverted to other purposes.

In this same period, the U.S. Government received further information that indicated the possible misuse of funds in the DPRK programs. This information was contained in or derived from internal UNDP records, banking statements, detailed transaction information provided by current and former UNDP staff, and former UNDP staff eye-witness accounts.

USUN shared our concerns about this new information and inquired about these matters with UNDP officials. We also proceeded to engage with the UNDP at the technical level to resolve our concerns, providing representative samples of the information we had received in a good faith effort to elicit a full internal examination of its records by UNDP.

Nevertheless, we could not come to closure on the facts of what had happened. Therefore, USUN sought an independent investigation of UNDP operations in the DPRK. At the end of September, UNDP established the External Independent Investigative Review Panel, led by Mr. Miklos Nemeth -- the former Prime Minister of Hungary, to review UNDP operations in the DPRK. We have met with Mr. Nemeth and his staff on several occasions and emphasized our strong commitment to providing all possible assistance in order to facilitate the work of the Review Panel. Our understanding is that Mr. Nemeth will complete his investigation in March 2008. We look forward to his report.

These are critical issues that affect not only the situation in North Korea but also the trust and confidence of Americans and other donors to the UNDP, as well as those in the less developed world who share an interest in an effective and efficient UNDP and the vitally important goal that aid – humanitarian or development aid – is delivered to its intended recipients, the world's neediest people. I understand, Mr. Chairman, that this Committee is going to do a report and we look forward receiving and reviewing your findings.

Thank you.

United States Government Accountability Office

GAO

Testimony

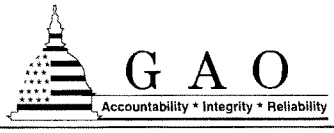
Before the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 10:00 a.m. EST
Thursday, January 24, 2008

UNITED NATIONS

Management Reforms and Operational Issues

Statement of Thomas Melito, Director
International Affairs and Trade



GAO-08-246T

January 24, 2008

UNITED NATIONS

Management Reforms and Operational Issues

What GAO Found

GAO's report on UN management reform efforts notes that (1) progress has varied in the five areas GAO examined—ethics, oversight, procurement, management operations of the Secretariat, and review of programs and activities (mandates)—and (2) various factors, such as disagreements among member states, have slowed the pace of progress. The UN ethics office has taken steps to improve organizational ethics, including implementing a whistleblower protection policy, but GAO identified issues that may limit the impact of the policy. The UN has taken steps to improve oversight, including establishing an Independent Audit Advisory Committee. However, UN funding arrangements continue to constrain the independence of the Secretariat's internal audit office and its ability to audit high-risk areas. The UN has taken steps to improve certain procurement practices but has not implemented an independent bid protest system or approved a lead agency concept, which could improve procurement services. The UN has taken steps to improve certain management operations of the Secretariat but has made little or no progress in others. Despite some limited initial actions, the UN's review of mandates has not advanced, due in part to a lack of support by many member states. Finally, the pace of UN management reforms has been slowed by member states' disagreements on reform efforts, lack of comprehensive implementation plans, administrative issues that complicate certain internal processes, and competing UN priorities.

GAO's report on oversight and accountability of selected UN organizations notes that, although the six UN internal audit offices GAO reviewed have made progress in implementing international auditing standards, they have not fully implemented key components of the standards. None of these six organizations require their internal oversight staff to disclose their financial interests. However, GAO found that five of the six organizations have made efforts to increase accountability by establishing whistleblower protection policies and one was developing such a policy. GAO also reported that while the six UN evaluation offices GAO reviewed are working toward implementation of UN evaluation standards, they have not fully implemented them. Finally, GAO reported that the governing bodies responsible for oversight of the six organizations lack full access to internal audit reports.

GAO's report on Burma notes that Burma's military regime has blocked or significantly impeded UN and other international organizations' efforts to address human rights concerns and to help people living in areas affected by ethnic conflict. The regime frustrated international organizations' efforts to monitor forced labor for years before signing an agreement in early 2007; restricted their efforts to assist populations living in conflict areas; and blocked their efforts to monitor prison conditions and conflict situations. The regime has, to a lesser degree, impeded UN food, development, and health programs. However, several UN and other international organization officials told GAO they are still able to achieve meaningful results in their efforts to mitigate some of Burma's humanitarian, health, and development problems.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss United Nations (UN) operations in the context of three key issues: (1) the progress of management reform efforts at the UN Secretariat since 2006; (2) weaknesses in oversight and accountability in selected UN organizations; and (3) constraints upon UN and other international organizations' activities in Burma.[1] Events over the past several decades indicate that there is a continuing need to reform and modernize the UN in areas including management, oversight, and accountability. While UN worldwide operations have expanded in complexity and significance, long-standing problems in UN management have contributed to scandals in the Oil for Food program and procurement operations.[2] In addition, various challenges have hindered the ability of some UN organizations to address Burma's most pressing problems. As the largest financial contributor to the UN, the United States has strongly advocated the reform of UN management practices. The United States has also been critical of Burma's military regime, which has blocked or impeded activities undertaken by many international organizations in Burma over the past 3 years.

The work supporting this statement is based on reports we issued in 2007 that focused on management reform efforts at the UN Secretariat since 2006, oversight and accountability in selected UN organizations,[3] and the operating environment for the UN and other international organizations in Burma. See appendix I for detailed information on the objectives, scope, and methodology of each report. We conducted our reviews in accordance with generally accepted government auditing standards.

[1]This testimony is based on recently completed GAO reports. See GAO, *United Nations: Progress on Management Reform Efforts Has Varied*, GAO-08-84 (Washington, D.C.: Nov. 14, 2007); *United Nations Organizations: Oversight and Accountability Could Be Strengthened by Further Instituting International Best Practices*, GAO-07-597 (Washington, D.C.: June 18, 2007); and *International Organizations: Assistance Programs Constrained in Burma*, GAO-07-457 (Washington, D.C.: Apr. 6, 2007).

[2]We reported on the UN Oil for Food program in *United Nations: Lessons Learned from Oil for Food Program Indicate the Need to Strengthen UN Internal Controls and Oversight*, GAO-06-330 (Washington, D.C.: Apr. 25, 2006) and other reports. We also reported on UN procurement in *United Nations: Procurement Internal Controls Are Weak*, GAO-06-577 (Washington, D.C.: Apr. 25, 2006) and other reports.

[3]The funds and programs include the United Nations Development Program (UNDP), the United Nations Children's Fund (UNICEF), and the World Food Program (WFP). The specialized agencies include the Food and Agriculture Organization (FAO), the International Labor Organization (ILO), and the World Health Organization (WHO).

Summary

In our report on UN management reform efforts, we note that (1) progress has varied in the five areas we examined—ethics, oversight, procurement, management operations of the Secretariat, and review of programs and activities (known as mandates)—and (2) various factors, such as disagreements among member states, have slowed the pace of progress. The UN ethics office has worked to improve organizational ethics by increasing staff in its ethics office, developing ethical standards, enforcing financial disclosure requirements, and implementing a whistleblower protection policy. However, weaknesses in the UN's internal justice system may limit the impact of the whistleblower protection policy. The UN made some progress in improving oversight by creating an Independent Audit Advisory Committee (IAAC) in June 2007 and improving the capacity of its Office of Internal Oversight Services (OIOS) to carry out internal audits and investigations. However, UN funding arrangements continue to constrain the independence of OIOS and its ability to audit high-risk areas. Progress on procurement reform efforts has been mixed. The UN has strengthened its training program for procurement staff, including conducting courses in ethical conduct, but has not formally established an independent bid protest system and has not approved a lead agency concept, whereby specialist UN organizations wonld handle certain procurements in order to enhance division of labor, reduce duplication, and reduce costs. The UN has taken steps to improve certain management operations of the Secretariat, such as selected human resource functions and the UN's information technology system. However, the UN has made little or no progress in improving several budgetary, financial management, and administrative functions. Despite some limited initial actions, the UN's review of mandates has not advanced, due in part to a lack of support by many member states. Finally, the pace of UN management reforms has been slowed by (1) disagreements among member states on the priorities and importance of UN management reform efforts, (2) the lack of comprehensive implementation plans for some management reform proposals, (3) administrative policies and procedures that continue to complicate the process of implementing certain human resource initiatives, and (4) competing UN priorities, such as the proposal to reorganize the Department of Peacekeeping Operations, that limit the capacity of General Assembly members to address management reform issues.

In our report on oversight and accountability of selected UN organizations, we address the extent to which these organizations' (1) internal audit offices have implemented professional standards for performing audits and investigations, (2) evaluation offices have implemented UN evaluation standards, and (3) governing bodies are provided with information about

the results of UN oversight practices. Although the six UN internal audit offices we reviewed have made progress in implementing international auditing standards, they have not fully implemented key components of the standards. None of the six organizations we examined required their internal oversight staff to disclose their financial interests, which could ensure that employees are free from conflicts of interest. However, we found that five of the six organizations have established whistleblower protection policies, and the United Nations Development Program (UNDP) was developing such a policy. In addition, none of the organizations has completed organizationwide risk-management frameworks, only half of the audit offices had sufficient staff to cover high-risk audit areas of the organization, and some of the audit offices have not fully implemented a quality assurance process, such as having external peer reviews. Some of the organizations also did not have professional investigators to probe allegations of wrongdoing. We also reported that while the six UN evaluation offices we reviewed were working toward implementation of UN evaluation standards, such as having sufficient resources and implementing quality assurance standards, they had not fully implemented them. Finally, we reported that the governing bodies responsible for oversight of the six organizations lacked full access to internal audit reports, which could provide greater insight into the organizations' operations and identify critical systemic weaknesses. International best practices suggest that oversight could be strengthened by establishing an independent audit committee. However, the audit committees at four of the six UN organizations we examined were not in line with international best practices, and one of the entities did not have an audit committee.

In our report on Burma, we identify UN and other international organizations' principal efforts to address Burma's humanitarian and development problems and describe the impact of the regime's recent actions upon them. We found that the military regime that rules Burma has blocked or significantly impeded UN and other international organizations' efforts to address human rights concerns and to help people living in areas affected by ethnic conflict. The regime frustrated UN/International Labor Organization (ILO) efforts to monitor forced labor for 4 years before signing an agreement in February 2007, restricted efforts by the UN High Commissioner for Refugees (UNHCR) to assist populations living in areas affected by ethnic conflict, and blocked efforts by the International Committee of the Red Cross (ICRC) to monitor prison conditions and conflict situations. The regime has also, to a lesser degree, impeded UN food, development, and health programs by restricting their ability to move food and international staff freely within the country and to conduct research needed to determine the nature and scope of some of Burma's

problems. Nonetheless, several UN and other international organization officials told us they are still able to achieve meaningful results in their efforts to mitigate some of Burma's humanitarian, health, and development problems.

Background

Although the UN has undergone various cycles of reform since its creation in 1945, UN member states continue to have concerns about inefficient UN management operations. In September 2005, world leaders gathered at the UN World Summit in New York to discuss a variety of issues of importance to the UN, including management reforms. The outcome document from the summit called for the Secretary-General to submit proposals for implementing management reforms of the Secretariat. In October 2006, we reported that progress had been slow in five key UN management reform areas, with numerous reform proposals awaiting General Assembly review, and that many of the proposed or approved reforms lacked an implementation plan with time frames and cost estimates.

Oversight is a key activity in governance that addresses whether organizations are carrying out their responsibilities and serves to detect and deter public corruption. Oversight functions include monitoring, evaluating, and reporting on the organization's performance; auditing of the organization's financial results and effectiveness of its internal controls; and holding senior management accountable for results. Oversight also includes investigation of allegations of fraud. The principal bodies responsible for conducting oversight in the three UN funds and programs we reviewed— The United Nations Development Program (UNDP), the United Nations Children's Fund (UNICEF), and the World Food Program (WFP)—and the three specialized agencies we reviewed—the Food and Agriculture Organization (FAO), the International Labor Organization (ILO), and the World Health Organization (WHO)—include member states in their capacity as members of the governing bodies, internal auditors, investigators, and evaluation offices.

The UN and other international organizations have become important sources of assistance to Burma's impoverished people, as the country—one of the world's poorest—has become increasingly isolated. This assistance includes programs aimed at mitigating the effects of prison conditions, forced labor, and conflicts in Burma's ethnic areas. The UN is also attempting to provide food to vulnerable populations, promote local economic development, improve health conditions, and strengthen the Burmese educational system. In recent years, UN entities have increased

their funding for activities aimed at addressing Burma's problems. UN entities informed us that they spent about $218 million in Burma from 2002 through 2005. Nevertheless, Burma's military regime distanced itself from the international organizations and began adopting increasingly restrictive policies after the regime underwent an internal purge in 2004, according to UN officials. The regime published guidelines in 2006 to restrict the activities of the international organizations. UN officials consider provisions in these guidelines, which have yet to be fully implemented, to be unacceptable.

Progress on UN Management Reform Efforts Has Varied and Various Factors Have Slowed the Pace of the Reform Efforts

Since our October 2006 report,[4] the progress of UN management reform efforts has varied in the five areas we reviewed—ethics, oversight, procurement, management operations of the Secretariat, and review of programs and activities (known as mandates). Various factors, such as member state disagreements on the priorities and importance of the remaining reform efforts, have slowed the pace of the UN's efforts to improve the management of the Secretariat, and a number of reforms cannot move forward until these factors are addressed.

Progress on UN Management Reform Efforts Has Varied

Since our October 2006 report, the UN has taken steps to improve ethics. The ethics office has made substantial progress in increasing staffing and in enforcing a whistleblower protection policy. In addition, the UN has made some progress in developing ethics standards and in enforcing financial disclosure requirements. However, concerns have been raised that the success of the whistleblower protection policy is, in part, dependent on reforms in the UN internal justice system that are not projected to be completed until 2009. In addition, the policy is potentially limited by the ethics office's lack of jurisdiction over UN funds and programs. After we issued our November 2007 report, the Secretary-General issued a bulletin calling for system-wide ethics standards for the Secretariat, programs, and funds. The bulletin outlined the guidelines and responsibilities for UN ethics offices of programs and funds and also stated that, if a program or fund does not have a policy in place for protection against retaliation, staff members of that program or fund may request protection from retaliation under the Secretariat's policy.

[4]GAO, *United Nations: Management Reforms Progressing Slowly with Many Awaiting General Assembly Review*, GAO-07-14 (Washington, D.C.: Oct. 5, 2006).

Although the UN has improved its oversight capability, the Office of Internal Oversight Services (OIOS) has not yet achieved financial and operational independence. In June 2007, member states created an Independent Audit Advisory Committee (IAAC) and, since then, the UN has made some progress in making it operational. The committee's five members were elected in November 2007, and the committee is expected to be operational by January 2008. Since October 2006, some progress has been made in strengthening OIOS. Although OIOS has improved the capacity of individual divisions, including internal audit and investigations, UN funding arrangements continue to constrain its ability to audit high-risk areas, and member states have not yet agreed on whether to grant OIOS financial and operational independence.

The UN has taken steps to improve its procurement process, but some reform issues have not moved forward since October 2006. Activities on which some progress has been made are the strengthening of procedures for UN procurement staff and suppliers, developing a comprehensive training program for procurement staff, and developing a risk management framework. However, the UN has made little or no progress in establishing an independent bid protest system and creating a lead agency concept, whereby specialist UN organizations would handle certain procurements in order to enhance division of labor, reduce duplication, and reduce costs. In addition, since our October 2006 report, the reorganization of the Department of Peacekeeping Operations, along with its related procurement activities, may affect the UN's overall procurement reform efforts, such as establishing lines of accountability and delegation of authority for the Departments of Management and Peacekeeping Operations.

Since our October 2006 report, the UN has improved some of the management operations of the Secretariat, but many reform proposals have not moved forward. Some progress has been made on selected issues involving human resources and information technology. In contrast, little or no progress has been made in reforming the UN's internal justice system, budgetary and financial management functions, and the alternative delivery of certain services, such as internal printing and publishing.

Despite some limited initial actions, the UN's review of all UN mandates has not advanced, due in part to a lack of support by many member states. Although some progress was made in Phase I of the review, which ended in December 2006, little or no progress has been made in Phase II because member states continue to disagree on the nature and scope of the review and lack the capacity to carry it out. As a result, the prioritization of this

particular UN management reform effort has decreased, according to UN and State officials. In September 2007, member states decided to continue reviewing mandates in the 62nd session of the General Assembly, but they did not determine how the review would proceed.

Various Factors Have Slowed the Pace of UN Management Reform Efforts

Various factors have slowed the pace of UN management reform efforts, and some reforms cannot move forward until these factors are addressed. Key factors include the following:

- Member states disagree on UN management reform efforts. Delegates from 15 of 17 member states that we met with, representing Africa, Asia, Europe, Latin America, the Middle East, and North America, told us that the number one challenge to continued progress on management reform efforts is member state disagreements on the priorities and importance of the remaining reform efforts.[5]

- Some management reform proposals lack comprehensive implementation plans, including time frames, completion dates, and cost and savings estimates for completing specific management reforms. In addition, the Secretariat has not submitted most of approximately 20 cost-benefit analyses and other assessments to the General Assembly as planned by March 2007.

- Administrative policies and procedures continue to complicate the process of implementing certain complex human resource initiatives. These policies and procedures include proposals to outsource certain administrative services, such as payroll processes, staff benefit administration, and information technology support.

- Competing UN priorities limit the capacity of General Assembly members to address management reform issues. For example, the reorganization of the Department of Peacekeeping Operations absorbed much of the General Assembly's attention throughout the spring 2007 session and, as a result, progress on some issues was delayed while others were not taken into consideration by the General Assembly.

[5]Over half of the 17 member states we spoke with mentioned distrust between the member states and the Secretariat as another hindrance to the progress of reform efforts. Some member states also told us that these concerns have continued under the new Secretary-General, who appointed numerous high-level Secretariat officials without consulting with the member states first.

To encourage UN member states to continue to pursue the reform agenda of the 2005 World Summit, we recommended in the report we issued on November 14, 2007, that, as management reforms are implemented over time, the Secretary of State and the U.S. Permanent Representative to the UN include in State's annual *U.S. Participation in the United Nations* report an assessment of the effectiveness of the reforms.

State generally endorsed our main findings and conclusions and noted that our assessment of UN progress on management reform efforts was accurate and balanced. State also agreed fully with the need to keep Congress informed of the effectiveness of management reforms, adding that the department will continue to monitor and inform Congress, as we recommended. State did not agree with our statement that successful whistleblower protections are dependent, in part, on the reform of the UN's internal justice program. During our review, we found that UN and nongovernmental organization staff had concerns about weaknesses in the UN internal justice system and the potential impact of these weaknesses on the implementation of a successful whistleblower protection policy. We agree with these concerns.

Oversight and Accountability in Selected UN Organizations Could Be Strengthened by Further Instituting International Best Practices

Although the six UN internal audit offices we reviewed have made progress in implementing international auditing standards, they have not fully implemented key components of the standards. In addition, while the six UN evaluation offices we reviewed are working toward implementing UN evaluation standards, they have not fully implemented them. Moreover, the governing bodies responsible for oversight of the six UN organizations we reviewed lack full access to internal audit reports and most lack direct information from the audit offices about the sufficiency of their resources and capacity to conduct their work. In addition, most UN organizations do not have an independent audit committee, as suggested by international best practices.

UN Internal Audit Offices Have Not Fully Implemented Key Components of International Auditing Standards

Most of the six UN organizations we examined are in various stages of adopting ethics policies, such as requiring conflict of interest and financial disclosure statements and adopting whistleblower policies to protect those who reveal wrongdoing. Ethics policies could strengthen oversight by helping to ensure more accountability and transparency within the organizations. Some internal oversight units rely on their staff to comply with a general declaration that all UN employees sign when they are employed by the organization. We earlier reported that

- UNDP and WFP rely on their oversight staff to self-report any conflicts of interest, though WFP's investigative unit was developing a conflict of interest policy to cover investigations staff in fall 2006, and

- none of the six organizations we examined require their internal oversight staff to disclose their financial interests, a practice that could help to ensure that employees are free from conflicts of interest.

Five of the six of the organizations we studied have established whistleblower protection policies to protect those who reveal wrongdoing within their respective organizations. UNICEF, FAO, WFP, WHO, and ILO have whistleblower protection policies in place, and UNDP was developing such a policy.

We reported that all six audit offices are developing and implementing risk-based work plans and five of the six internal audit offices have contributed to their respective organizations' development of a risk management framework. However, the organizations' senior management has not completed an organizationwide risk management framework that would assist in guiding the audit offices' work plans. Moreover, only three of the six audit offices told us that they had sufficient resources to achieve their audit work plans, which could include high-risk areas. For example, WFP's audit chief informed us that the audit office did not have sufficient resources to conduct its planned work for 2007 and as a result, it has had to defer audits to future years.

We also reported that a number of internal oversight units do not have professional investigators and rely on other parties who may not be qualified, such as auditors, to determine whether wrongdoing has occurred. As a result of the limited capacity of organizations to conduct investigations, many internal oversight units have backlogs of investigative cases and are unable to complete their planned audits. A number of the organizations we examined indicated that they were working on increasing their investigative capacity in order to meet new organizationwide initiatives. For example, UNDP senior officials reported that they needed additional investigative staff because the number of cases had increased, due to the establishment of a fraud hotline.

UN Evaluation Offices Have Not Fully Implemented UN Evaluation Standards

We reported that five of the six evaluation offices we reviewed stated that they lack sufficient resources and staff with expertise to manage and conduct evaluations—conditions that have impacted their ability to conduct high-quality and strategically important evaluations. For example, FAO's evaluation officials informed us that because FAO does not have sufficient resources to manage and conduct evaluations to reasonably address management's concerns, it relies heavily on the use of outside consultants for expertise.

Governing Bodies Lack Full Access to Information That Could Provide Greater Insights into UN Organizations' Operations and Identify Critical Systemic Weaknesses

The governing bodies of the six organizations we examined lack full access to internal audit reports, which would increase transparency and their awareness of the adequacy and effectiveness of the organizations' system of internal controls. Currently, member states are not provided with the internal audit office's reports; however, member states including the United States have stated that access to audit reports would help them exercise their oversight responsibilities as members of the governing body. International best practices suggest that oversight could be strengthened by establishing an independent audit committee composed of members external to the management of the organization and reporting to the governing body on the effectiveness of the audit office and on the adequacy of its resources. However, the audit committees at four of the six UN organizations we examined are not in line with international best practices, and one of the entities does not have an audit committee.

To improve oversight in UN organizations, we recommended that the Secretary of State direct the U.S. missions to work with member states to make internal audit reports available to the governing bodies to provide further insight into the operations of the UN organizations and identify critical systemic weaknesses; and establish independent audit committees that are accountable to their governing bodies, where such circumstances do not currently exist. While State, FAO, UNDP, WFP, and WHO generally agreed with our recommendations, ILO and UNICEF expressed concerns about implementing them. Specifically, ILO expressed reservations about making internal audit reports available to governing bodies, while UNICEF expressed concerns about establishing independent audit committees.

International Organizations' Assistance Programs Have Been Constrained in Burma

We found that the military regime that rules Burma has blocked or significantly impeded UN and other international organizations' efforts to address human rights concerns and to help people living in areas affected by ethnic conflict. The regime has also, to a lesser degree, impeded UN food, development, and health programs. Nonetheless, several UN and other international organization officials told us they are still able to achieve meaningful results in their efforts to mitigate some of Burma's humanitarian, health, and development problems.

Burmese Regime Has Blocked or Impeded Human Rights Programs and Programs in Conflict Areas

Burma's military regime has blocked international efforts to monitor prison conditions, and, until recently, forced labor in Burma. The regime halted ICRC's prison visit program by insisting that pro-regime staff observe ICRC meetings with prisoners. Similarly, the regime frustrated ILO efforts to conclude an agreement establishing an independent complaints process for forced labor victims for 4 years. It eventually signed an agreement with ILO in February 2007 to establish a complaints mechanism for victims of forced labor. The regime has also impeded international efforts to address the needs of populations in conflict areas by restricting international access to those areas. For example, it has limited UNHCR efforts along the Thai border, while halting or impeding efforts in conflict areas by ICRC and other organizations.

Burmese Regime Has Hindered Food, Development, and Health Programs

The regime has also impeded UN food, development, and health programs, although programs that address health and development issues in Burma have generally been less constrained by the regime's restrictions than the ILO and ICRC human rights efforts. Delays in obtaining transport permits for food commodities from the current regime have hindered WFP efforts to deliver food to vulnerable populations. The regime's time-consuming travel procedures have also impeded the ability of international staff to move freely within the country to ensure the timely provision of assistance. Officials of eight of the nine UN entities that provide humanitarian, health, and development assistance in Burma told us that the regime requires at least 3 to 4 weeks' advance notice to authorize travel, which impedes the planning and monitoring of projects through field visits and reduces the scope of their activities. UN officials told us that the regime has also impeded their ability to address the needs of the Burmese population, conduct strategic planning, and implement programs in Burma by restricting their ability to conduct their own surveys and freely share the data they gather.

UN Officials Say Meaningful Work Still Possible in Burma

Despite these restrictions, many of the international officials we spoke with told us that they are still able to achieve meaningful results in their efforts to mitigate some of Burma's many problems. For example, UN officials working in the health sector told us that the Burmese regime had been increasingly cooperative in efforts to address HIV/AIDS prevalence and recently worked with several UN entities to develop a multisectoral plan that targets all victims of the disease in Burma. Several officials also emphasized that restrictions have had the least effect on organizations that tend to work closely with the regime. For example, an FAO official told us that FAO generally has good relations with the technical ministries it cooperates with due to its close work with these ministries in providing technical assistance and supporting knowledge transfer.

Our report on Burma included no recommendations. We obtained comments on a draft of this report from the Secretary of State and cognizant UN and ICRC officials. State commented that the draft report was thorough, accurate, and balanced. While the UN Country Team commented that the UN and its partners had in the past decade achieved "a significant opening of humanitarian space on the ground," it did not dispute our specific findings about the regime's restrictions over the past 3 years. In response to recent protests in Burma, the UN Country Team noted the urgent necessity to address Burma's deteriorating humanitarian situation and appealed for an improved operating environment for humanitarian organizations working there.

Concluding Observations

The UN is increasingly called upon to undertake important and complex activities worldwide, including responding to conflict and humanitarian crises. As the UN's role and budget expand, so do attendant concerns about weaknesses in accountability, transparency, and oversight. The UN Secretariat and UN-affiliated organizations face internal and external challenges in undertaking, administering, and overseeing their respective mission-related activities. UN organizations have worked to implement needed internal reforms to improve ethics, oversight, procurement, and management operations with varied degrees of progress. For example, the UN has worked to improve oversight by establishing an IAAC, but funding arrangements within the Secretariat's internal audit office continue to constrain the office's operational independence and its ability to audit high-risk areas. In addition, UN organizations face external challenges in operating environments such as Burma, where the military regime has blocked or impeded some UN activities aimed at improving human rights. Addressing these challenges will require concerted and sustained actions

by member states and UN organizations' management, staff, and oversight mechanisms.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other Members of the Subcommittee may have at this time.

GAO Contact and Staff Acknowledgments

Should you have any questions about this testimony, please contact Thomas Melito at (202) 512-9601 or melitot@gao.gov. Major contributors to this testimony were Cheryl Goodman, Zina Merritt, and Phillip Thomas (Assistant Directors); Debbie J. Chung; Lyric Clark; Andrea Miller; George Taylor; and Pierre Toureille.

Appendix I: Objectives, Scope, and Methodology

This testimony is based on three reports we issued during 2007—*United Nations: Progress on Management Reform Efforts Has Varied* (Nov. 2007); *United Nations: Oversight and Accountability Could Be Strengthened by Further Instituting International Best Practices* (June 2007); and *International Organizations: Assistance Programs Constrained in Burma* (Apr. 2007). The objectives, scope, and methodology of each of these reports follows.

United Nations: Progress on Management Reform Efforts Has Varied

For this report, we assessed progress in ethics, oversight, procurement, management operations of the UN Secretariat, and mandate review.[1] To assess the progress of specific UN management reform efforts within each of these five areas, we developed the following three categories: little or no progress, some progress, and substantial progress.[2] However, we did not assign an overall level of progress to each of the five reform areas because the various initiatives within each area are highly diverse. During our review, we determined which category of progress to assign to each reform effort based on documents we collected and reviewed and discussions we had with State Department, UN, and other officials. After we had made our initial assessments of progress, three other GAO staff members not involved in this review used the evidence and the categories to make their own assessments independently of each other. These staff members then met with each other to reconcile any differences in their initial assessments. Finally, they met with us and confirmed that we were all in agreement on our assessments. To address our objectives, we reviewed documents proposing UN management reforms and interviewed officials from several UN departments in New York. We reviewed reports and bulletins published by the UN General Assembly and Secretariat, relevant UN resolutions, and related budget documents. The majority of the cost estimates for the proposed reform initiatives are preliminary, and detailed cost estimates are being developed; therefore, we did not analyze the assumptions underlying these estimates to determine whether they are reasonable and reliable. We met with officials from the General Assembly Office of the President, the Office of the Deputy Secretary-General, the

[1]GAO, *United Nations: Progress on Management Reform Efforts Has Varied*, GAO-08-84 (Washington, D.C.: Nov. 14, 2007).

[2]We assign "little or no progress" to reform efforts where there is evidence that few or no steps have been taken on the reform effort; "some progress" to those where there is evidence that some steps have been taken on the reform effort, while others remain; and "substantial progress" to those where there is evidence that the reform effort has been mostly or fully implemented.

Department of Management, and the Office of Internal Oversight Services (OIOS). We also met with representatives from 17 of 192 member states from various geographic regions to obtain a balance of views on the most critical challenges to reforming UN management. We discussed the status of UN management reforms with officials from the Department of State in Washington, D.C., and the United Nations in New York. We performed our work on UN management reforms from March to November 2007 in accordance with generally accepted government auditing standards.

United Nations Organizations: Oversight and Accountability Could Be Strengthened by Further Instituting International Best Practices

For this report, we selected 6 UN organizations from among the 10 funds and programs and 15 specialized agencies that comprise the universe of all UN funds and programs and specialized agencies, including the Food and Agriculture Organization, International Labor Organization, United Nations Children's Fund, United Nations Development Program, World Food Program, and the World Health Organization.[3] On the basis of their budgets for biennium 2004-2005, we selected the three largest funds and programs and three of the largest specialized agencies. Therefore, our results cannot be generalized to the full universe of all funds and programs and specialized agencies and may not represent the practices of the smaller UN organizations.

To examine the extent to which the six organizations' internal audit offices have implemented professional standards for performing audits, we reviewed relevant standards issued by the Institute of Internal Auditors. To conduct our review, we selected key audit standards that were based on previous GAO work. In addition, we examined documents and conducted interviews with various officials, including officials of the internal audit offices, finance division, human resources, audit committees, legal offices, and external auditors. Regarding investigations, the six UN organizations we examined have adopted the UN Uniform Guidelines for Investigations, which are intended to be used as guidance in the conduct of investigations in conjunction with each organization's rules and regulations.

To examine the extent to which the six organizations' evaluation offices have implemented UN evaluation norms and standards, we reviewed the

[3]GAO, *United Nations Organizations: Oversight and Accountability Could Be Strengthened by Further Instituting International Best Practices*, GAO-07-597 (Washington, D.C.: June 18, 2007).

relevant standards and norms issued by the UN Evaluation Group. We examined documents from the six organizations, including reports prepared by the organizations' evaluation offices and external peer reviewers, and annual reports of the evaluation offices. In addition, we conducted interviews with various officials of the evaluation offices.

To examine the extent to which governing bodies are provided information about the results of UN oversight practices, we reviewed documents from the six organizations, including reports prepared by the organizations' external auditors, the oversight unit chiefs, the governing bodies, and the audit committees, where applicable. We also examined the charters of the audit offices and the audit committees, where applicable. In addition, we interviewed selected representatives from UN member states, including representatives from the U.S. missions to the UN in Geneva, Rome, and New York and U.S. representatives to the governing bodies of the UN organizations we examined. In Geneva, we spoke with members of the Geneva Group, including representatives from the United Kingdom, Canada, the Netherlands, Australia, and Germany. In Rome, we spoke with additional members of the Geneva Group, including representatives from the United Kingdom, Spain, Canada, Sweden, South Korea, Germany, Switzerland, Finland, Italy, France, Russia, New Zealand, Japan, and the Netherlands. In addition, we met with representatives of the Group of 77 from Zimbabwe, Madagascar, Iraq, Dominican Republic, Bangladesh, Brazil, Cameroon, China, Egypt, Kuwait, Nicaragua, Peru, the Philippines, Sri Lanka, and Thailand. In New York, we spoke with mission representatives to the UN from Belgium, Australia, the United Kingdom, Canada, Japan, and Pakistan.

Furthermore, to address our objectives, we spoke with senior officials from the Departments of State and Labor in Washington, D.C., and senior officials from State, Labor, Health and Human Services, and the U.S. Agency for International Development at the U.S. missions to the UN in Geneva, Rome, and New York. At these locations, we met with management and staff responsible for governance and oversight at FAO, ILO, UNDP, UNICEF, WFP, and WHO. We conducted our work on oversight and accountability of UN organizations from June 2006 through March 2007 in accordance with generally accepted government auditing standards.

International Organizations: Assistance Programs Constrained in Burma

For this report, we examined documents relating to programs conducted in Burma by the UN Country Team (which includes ten UN entities located in that country) and the restrictions imposed on them by the Burmese regime.[4] In New York and Washington, D.C., we met with officials of the U.S. Departments of State and the Treasury, the UN, the World Bank, and the International Monetary Fund. We also met with the Burmese UN mission in New York. In Rangoon, Burma, we met with officials of UN entities, the International Committee of the Red Cross, and several international nongovernmental organizations who asked that we not identify their organizations; and officials of the U.S. embassy and of the leading democratic organization in Burma. In and near Rangoon and Bassein, Burma, we met with recipients of UN assistance. We also traveled to Nay Pyi Taw (Burma's newly built capital) to meet with officials from the Burmese Ministry of National Planning and Economic Development and the Ministry of Health. In Bangkok, Thailand, we met with officials from three additional UN entities that operate programs in Burma from Thailand,[5] as well as with representatives of other donor nations. We conducted our work on Burma from May 2006 to February 2007 in accordance with generally accepted government auditing standards.

[4]GAO, *International Organizations: Assistance Programs Constrained in Burma*, GAO-07-457 (Washington, D.C.: Apr. 6, 2007).

[5]The three UN entities that operate programs in Burma from Thailand are the UN Educational, Scientific, and Cultural Organization; the Inter-Agency Project on Human Trafficking in the Greater Mekong Sub-Region; and the UN Industrial Development Organization.

United Nations Development Programme
Operations in North Korea

Briefing for the
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

January 24, 2008

Statement of the
United Nations Development Programme

Senator Levin, Senator Coleman, and other Members of the Subcommittee, on behalf of the United Nations Development Programme (UNDP), we appreciate this opportunity to brief the Subcommittee and respond to questions about UNDP's operations in the Democratic People's Republic of Korea (DPRK or North Korea), as well as to comment on related issues of institutional transparency and accountability.

We appear voluntarily and informally in accordance with the legal status and established practice of the United Nations regarding the jurisdiction of national authorities. As a multinational organization, UNDP must respect and treat all member states on an equal and impartial basis, and we appreciate your willingness to accommodate these considerations today.

But within these parameters, we are willing and prepared to brief the Subcommittee fully, not only on the underlying facts of the issues that led to this investigation, but also on the extensive efforts UNDP has made to allay concerns surrounding them. As you know, we have already met extensively with your staff in an effort to respond to their questions and provide additional information relevant to the issues under review.

Serious allegations have been made, and repeated in media reports, about UNDP's operations in North Korea. Based on the evidence reviewed by your Staff over the past few months, it should now be clear that these allegations have no basis in fact:

- UNDP did not transfer tens of millions of dollars to the North Korean government;
- UNDP's funds did not go to fund North Korean purchases of real estate, or its nuclear or missile programs;
- UNDP did not deal in significant amounts of cash, which could be diverted or embezzled in defiance of financial controls.
- UNDP did not ignore UN controls on prohibited vendors and did not deal directly with entities barred by these processes.
- UNDP did not resist providing information to Member States about its conduct in North Korea and made available information to refute these charges.

It is important, Mr. Chairman, that these points be acknowledged, so that the reputation and effectiveness of this organization should not continue to be compromised by such charges.

In addition, criticisms of UNDP's transparency and accountability have been made which are incompatible with an extensive series of external evaluations showing that the organization rates very highly on such criteria. Appended to this statement, we have summarized a series of evaluations from respected organizations, including agencies of the U.S. government, which confirm this overall performance.

At the same time, we acknowledge that expectations and opinions will differ about the policies and procedures most appropriate to the operation of international organizations, and we are prepared to consider changes and clarifications that may be advisable and consistent with the approaches of the U.N. Secretariat and other UN agencies. We also agree that there are areas where improvements are appropriate and many are already underway. We therefore welcome the opportunity to discuss these issues with this Subcommittee.

UNDP Panel. UNDP is represented today by a panel of people with different functions and backgrounds within the organization. Each has spent considerable effort in recent months to review and respond to questions raised about our operations in the DPRK, including extensive discussions with the Subcommittee staff. Given the level of detail involved in many of the matters under review, we think this working level panel is the best way to represent the organization at this briefing. The panelists are:

- **Frederick Tipson**, Director of the UNDP office in Washington, whose principal function is to facilitate UNDP's transparency and accountability to the U.S. government. Before spending 23 years in the private sector, Fred was counsel to the Senate Foreign Relations Committee under Senators Jacob Javits (R-NY) and Charles Percy (R-IL).
- **David Lockwood**, Deputy Assistant Administrator and Deputy Regional Director for Asia and the Pacific, whose experience spans a 35-year career in UNDP, including UN Resident Coordinator in Afghanistan and Bangladesh prior to assuming responsibility for programs in Asia and the Pacific, including North Korea.
- **David Morrison**, a Director in the Partnerships Bureau of UNDP, where he has had the major responsibility over the past year for examining and responding to the allegations that have arisen around our North Korea operations.

UNDP Overview. UNDP is the UN's largest development organization, entrusted with about $5 billion per year of development resources, and a presence in more than 160 countries. UNDP's work focuses on assisting developing countries in building democratic institutions; reducing poverty; preventing and assisting recovery from crises; and protecting the environment. Within the UN system, UNDP also plays a coordinating role for other development activities. Our Administrator, **Kemal Derviş**, is the Chair of the U.N. Development Group, which comprises the heads of all U.N. institutions involved with development. Each organization is managed separately, however, with different mandates, governance structures and funding mechanisms.

UNDP operates in nearly every developing country in the world. These include very difficult locations, such as Afghanistan, Pakistan, Sudan, Somalia, and many others.

UNDP manages the Trust Fund for Iraq, established by a range of donors in 2003, and coordinates major infrastructure projects there, including the reconstruction of ports and power systems. We also manage more than a dozen other multi-donor trust funds, totaling more than $3 billion in all, designed to maximize the impact of different multilateral and national donor agencies. Congress recognized the value of this presence, as in the Department of State FY 2006 Congressional Budget Justification:

> "*[UNDP] has transformed itself from a project financing entity into an organization focused on governance and institutional capacity building. UNDP has also instituted a results-based management system to monitor and improve its performance... At the country level, it provides services to nineteen agencies and manages the Resident Coordinator System--a system essential to shaping a common UN approach to the development needs of a country.*"

UNDP operates everywhere with the approval and oversight of an Executive Board, on which the United States has always been an active member. Some of these locations include countries where the government's relations with the U.S. government are difficult or problematic, but in such locations UNDP is experienced at designing and implementing programs that benefit the local population without endorsing specific government leaders or agendas.

UNDP is highly decentralized, with the bulk of its workforce serving in the field, and the majority in their home countries. Indeed, one of UNDP's principal contributions in these countries is the training and support of local talent—the cultivation of the human capacity needed to carry out personal, institutional and national development over the long term. In the December 11 terrorist bombing in Algiers, six of the seven UNDP staffers killed were Algerian nationals.

While its scope and purpose present UNDP with major challenges in managing a global enterprise, UNDP has developed and employs systems and procedures comparable to those of other large enterprises—including performance management systems to promote excellence and extensive tools to track and evaluate the use of funds. No large organization of such global scope is completely immune from problems of misconduct and mismanagement, particularly when one considers the great differences in culture and living conditions from one location to another. But UNDP has been rigorous in its approach to preventing, detecting and punishing such behavior. When it encounters waste or fraud within the organization, UNDP acts decisively to remedy the situation.

At the same time, the best protection against misconduct in UNDP, like any other large organization, is the quality and integrity of line management, the effectiveness and reliability of major systems for reporting and accounting, and the incentives and sanctions that create the basic performance culture of the institution. If UNDP had to depend principally on the scrutiny and judgments of outsiders--or even on the

extraordinary initiatives of insiders--to protect itself against misconduct, it could not expect to be an effective organization.

Ethical Standards and Protection of Employees from Retaliation. In two areas of particular interest to the United States government—the protection of employees from retaliation and the provision of greater access to internal audits--UNDP continues to make changes to increase confidence.

Until very recently, several senior managers, with well defined roles, had the responsibility to assure ethical behavior within UNDP. Together they performed most of the functions of an Ethics office. UNDP's basic line management system incorporated the standards embodied in the United Nations Staff Regulations and Rules and the 2001 Standards of Conduct for the International Civil Service. These included protection against retaliation and related responsibilities, codified by UNDP in 2005 in our guidelines on Workplace Harassment, Sexual Harassment and Abuse of Authority. UNDP recently reinforced these protections by issuing a "Legal Framework for Addressing Non-Compliance with UN Standards of Conduct," which further addresses the reporting of allegations, protection against retaliation, action against retaliators, investigation procedures, rights of subjects/participants during investigation, and disciplinary measures. It makes specific reference to the provisions of the UN Secretary-General's Bulletin of 2005. In addition, for the past three years, UNDP's Office of Audit and Performance Review has maintained a hotline for anonymous and confidential reporting.

In short, contrary to some of the criticism directed at UNDP this past year, UNDP has had policies and procedures in place to protect employees from retaliation, some of which predated the policies initiated by the Secretary-General in 2005. Moreover, all personnel (staff and non staff), regardless of level or legal status, are encouraged to bring concerns and claims under these procedures, and all such claims are treated with appropriate seriousness.

Most recently, in accordance with the new policies issued by the Secretary-General on November 30 2007, UNDP has added the new position of Ethics Officer, and has appointed an experienced officer. As he is close to retirement we are conducting a global search for someone who could occupy the position longer-term. In addition to overseeing the key components of UNDP's ethical standards and mechanisms, this Ethics Officer will work together with the Director of the Ethics Office in the Secretariat, the new United Nations Ethics Committee, and the Ethics Officers of the other UN Funds and Programs further harmonizing the overall ethics regime of the wider UN system. From a staff point of view, there is now a "two step system". In other words, staff from UNDP and the other Funds and Programmes can now appeal to the Chair of the new UN Ethics committee to have their individual case reviewed by the UN Ethics Office, if they believe that they have not been treated appropriately by the Ethics Officer of their own organization.

Oversight and Audits. UNDP's accountability to Member States governments is achieved principally through its 36-nation Executive Board. That Board reviews both the general policies and practices of the organization, as well as the country development plans that form the core of UNDP's programs in a particular country. Audits are a basic tool in assuring the financial integrity and development effectiveness of UNDP programs, and UNDP undertakes both internal and external audits. External audits are conducted by the UN Board of Auditors, composed of the supreme audit authorities from member states, and it has full access to all documents, including UNDP's internal audits and source material. The biennial Financial Report and Audited Financial Statements, including the Report of the Board of Auditors is posted on the General Assembly website. Cases of fraud and presumptive fraud are reported to Member States as part of the above stated report. The independent Annual Internal Audit and Oversight Report presented to the Executive Board, and posted on its website, comprises of detailed analysis of all internal audits carried out by UNDP's Office of Audit and Performance Review (OAPR) including cases of fraud and presumptive fraud. The OAPR report is also accompanied by the independent report of the Audit Advisory Committee. UNDP's and other Funds and Programs' internal audits have traditionally been viewed as tools of internal management and not made available to member states.

At its October meeting, the Chief Executives Board (CEB), comprised of heads of UN entities, and chaired by the Secretary-General, considered whether to provide Member States with direct access to internal audits. It determined that this issue should be raised by the executive head of each agency with its governing board. UNDP's Administrator, who had pushed for the CEB to consider this issue, then moved quickly to present a proposal for providing such access to UNDP's Executive Board, a proposal that is under consideration at its meeting this week in New York. It would assure Member States of the Executive Board the right to review all internal audits, subject to appropriate considerations of sensitivity and confidentiality.

North Korea. UNDP began programs in North Korea in 1981 with the approval of the Executive Board, which then included representatives of President Reagan's administration. Our DPRK program has always been modest, averaging $2.6 million per year over the past decade, but with less than half of that amount actually spent in the country. UNDP personnel in North Korea have not exceeded 10 international and about 20 local people. Among other things, UNDP's presence in the country helped facilitate the international response to severe famines in the 1990's, and has helped to expose local officials and citizens to the standards and norms of the international community.

UNDP's operations in North Korea were sometimes difficult, largely because of restrictions placed by the Government on all foreign entities (UN agencies, national diplomatic missions, international NGOs) operating in North Korea. The restrictions included, for example, the requirement to recruit local personnel via a North Korean government agency, and the requirement to give advance notice for travel beyond the capital city of Pyongyang. The need to be especially vigilant about our operations in North Korea led UNDP to conduct internal audits in 1999, 2001 and 2004. While the first two audits pointed to certain weaknesses in our operations, the third documented that

substantial improvement had been achieved by 2004, improvement which continued thereafter. In recent years UNDP further tightened its operations in the country, including by increasing oversight from headquarters, by increasing the number of site visits, and by hiring an international procurement expert to verify equipment inventories.

2007 External Audit. In early 2007, in response to allegations raised, the Secretary-General called for an external audit. A 31 May preliminary audit report in our view shows clearly that:

- The audit report confirmed the relatively modest size of UNDP's program, averaging $2.6 million per year in the 2002-06 audit period, and it found that UNDP had in place a full range of monitoring mechanisms, including site visits, to see how its funding was being spent. The audit did not support allegations that UNDP dealt in tens of millions of dollars and lacked controls to verify its spending.

- Although UNDP had been required by the North Korean authorities from the outset of its operations there in 1981 to obtain the services of local personnel from a North Korean government agency, UNDP had duly informed its own Executive Board, of which the U.S. is a member, of this requirement--most recently in 2001. As noted above, this requirement, which remains in place to this day, is imposed on all other international organizations, such as, for example, UNICEF; national embassies; and international NGOs operating in North Korea (e.g. Mercy Corps International; Caritas).

- UNDP had made payments to vendors directly in Euros instead of first changing Euros into local currency via the North Korean banking system, "without requisite authority". (The auditors did not find that such payments broke any rules, but they did recommend that the relevant rules state more explicitly that UNDP should make effective use of all available currencies, as UNICEF's rules do. UNDP is making this modification).

- UNDP conducted project site visits to check how its money was spent, but these visits required prior permission and took place under the supervision of the North Korean authorities.

Interpretations of these and other findings of the External Audit differed sharply. In UNDP's view this was largely because of persistent and incorrect assumptions about how the organization operated in North Korea; the difference between spending that took place inside the country and spending that took place elsewhere; the functioning of the National Execution (NEX) modality in North Korea; the number of projects UNDP maintained in North Korea; the various means it used to monitor its spending, including project site visits; and its use of checks and bank transfers.

June 2007 Allegations. Shortly after the External Audit report, new allegations were raised that UNDP had underreported its funding levels, had knowingly or

negligently allowed its funds to be diverted outside of the country, and had made large payments to entities with links to North Korean armaments programs. UNDP was shown sample documents that purported to substantiate some of the allegations. However, a cross-check against UNDP's own records showed:

- That the sample documents referred to payments far in excess of the total money UNDP had available in the country for all purposes (i.e. including international staff salaries and travel, all program expenditures, payments on behalf of others, etc) during the periods in question.

- That of the 100+ payments detailed in the sample documents, only 11 matched UNDP's own records.

- That payment information in the sample documents purporting to be from 2001 and 2002 used financial system codes not yet in use by UNDP at that time.

In short, the allegations seemed to be based on either a misreading of the documents themselves, inauthentic or "doctored" documents that had been provided both to the U.S. government and to the media or allegations made that could be contradicted by reliable records and documents.

On some of the more persistent allegations, UNDP would like to clarify:

- Total payments of UNDP funds to the "NCC for UNDP" amounted to $370,695 in the period 1997 – 2007. This is far less than the $7 million that was alleged for the period 2001 – 05 alone.

- Total payments to the Chinese company Zang Lok amounted to $29,567.80 on behalf of WIPO for computer equipment in 2002, and $22,634.15 on behalf of UNESCO for computer equipment in 2004; in both cases the equipment was received in good order. The total of $52,201.95 is far less than the $2.7 million that UNDP was alleged to paid to Zang Lok.

- Further, in June 2007, when the State Department alerted UNDP that Zang Lok had ties to a North Korean entity with links to the country's armaments programs, UNDP immediately agreed to cease doing business with Zang Lok. UNDP and other UN agencies routinely consult control lists maintained by the U.N. Security Council before making procurement decisions. It is unclear whether Zang Lok, as a company with ties to a "designated" North Korean entity -- and not itself a designated entity -- was on any list that UNDP or other UN agencies should have consulted in 2002 and 2004.

The funds devoted to UNDP's programs in North Korea over the last ten years can be summarized in the following table, which distinguishes those funds transferred to North Korean government agencies from the total funding for UNDP's North Korea programs each year, and the percentage which that represents. We have also broken out

funds transferred to the "NCC for UNDP", because of the attention that has focused on this entity.

Year	UNDP Funds transferred to "NCC for UNDP"	UNDP funds transferred to other Government entities	UNDP managed Funds	Total Expenditures for UNDP's North Korean programs	Payments to Government entities as a percentage of the total
1997	0	1,507,706	4,068,225	5,575,931	27%
1998	0	531,662	4,691,667	5,223,329	10%
1999	50,250	16,206	1,531,568	1,598,024	4%
2000	22,613	36,417	2,011,283	2,070,312	3%
2001	0	96,060	1,415,602	1,511,662	6%
2002	4,040	21,213	1,810,101	1,835,354	1%
2003	43,197	7,164	2,204,801	2,255,162	2%
2004	59,045	0	1,105,470	1,164,515	5%
2005	92,451	18,774	3,084,213	3,195,439	3%
2006	99,099	334,140	4,135,626	4,568,865	9%
2007	0	0	641,809	641,809	0%
Total	**370,695**	**2,569,342**	**26,700,365**	**29,640,402**	**10%**

In addition to the above, UNDP also made payments in North Korea on behalf of other UN entities. These payments totaled roughly $1 million per year during the period 1997 – 2007 (a detailed breakdown is available on the UNDP website). It should also be noted that:

- Of the $29,640,402 in program expenditures going back over a decade, only about half of that spending took place within North Korea. The remainder represents expenditures elsewhere in the world, in support of the North Korea program.

- The $370,695 paid to the NCC for UNDP does not support the persistent allegations that this entity transferred $2.72 million in UNDP funds abroad for the purchase of real estate. As UNDP has maintained all along, the bulk of the money paid to that entity was used in support of agricultural workshops for participants from Asia and Africa, workshops that were monitored and documented.

- In the course of its interactions with the Subcommittee Staff in late 2007, however, UNDP was for the first time shown documentation indicating that the NCC for UNDP" had apparently used its bank account to transfer $2.72 million to various locations abroad in 2002. While this was clearly <u>not</u> money provided by UNDP, and UNDP had no way of knowing that the bank account had been used in this manner, UNDP was greatly concerned that its name had been used in

connection with these unrelated financial transactions. It has formally raised the matter with the North Korean government.

- All payments made by UNDP to the North Korean government or anyone else in North Korea were undertaken by bank transfer or check. Despite persistent allegations, UNDP did not deal in cash in North Korea, beyond an allowable $50 limit for petty cash.

UNDP acknowledges that some aspects of its operations can appear complex, particularly in countries such as North Korea, which has a dual currency regime, and where UNDP had put in place special measures, such as directly executing almost all projects that were technically under government execution, in order to ensure effective financial control. Yet we tried to be extremely responsive to member states that had questions or expressed particular concerns about our North Korea program. This was especially the case with Japan, which took a special interest in the program going back some years. Similarly, when the U.S raised concerns in late 2006 about UNDP's payment practices and recruitment of local personnel via a North Korean government agency, UNDP moved immediately to address the concerns. UNDP has been very forthcoming in responding to all queries from Member States about its North Korea operations since concerns first arose over a year ago.

External Independent Investigative Review (EIIR). However, because of the continuing concerns expressed by others, and the resultant need to address and resolve all outstanding issues, UNDP's Administrator, Kemal Derviş, in close consultation with the President of its Executive Board, and with the U.S. government and other Board members, commissioned an External Independent Investigative Review (EIIR), designed to operate in a non-political and highly professional manner and be complementary to the UNBOA process. The Review is being led by former Prime Minister of Hungary, Miklos Németh, who later became a Vice-President of the European Bank for Reconstruction and Development in London and a member of the Advisory Board of Transparency International. The other two members are Mary Ann Wyrsch, former President and the Executive Director of the Bush-Clinton Katrina Fund, former United Nations Deputy High Commissioner for Refugees, and former acting commissioner of the U.S. Immigration and Naturalization Service, and Chander Vasudev, a former high level official of the Indian Finance Ministry.

The Terms of Reference for the EIIR (available on UNDP's website), include a thorough investigation of claims by a former UNDP contractor in North Korea that he was retaliated against for "blowing the whistle" on irregularities in UNDP's operations there. The results of this aspect of the investigation will be forwarded to and reviewed by the UN Ethics Office, which will then advise on appropriate actions, if any. The EIIR began work in October and has been provided with access to all documents and personnel available to UNDP, including all documentation previously held by the UNDP country office in Pyongyang, which was brought to New York. We understand that all concerned parties are cooperating. It expects to issue a final report in March 2008. This report will likely include overall recommendations on specific measures that UNDP should take

when directed by its Executive Board to operate in countries that may present special challenges.

Finally, Mr. Chairman, UNDP welcomes the efforts by this Subcommittee to examine these allegations in a careful and systematic way. We look forward to your questions today and for further opportunities to assure a complete and accurate record on these matters.

Thank you.

Attachments:
1. UNDP Programs in Selected Countries
2. External Assessments of UNDP
3. Responses to Recent Allegations about UNDP Operations in North Korea

Attachment 1

UNDP Programs In Selected Countries

The **United Nations Development Program** is on the ground in 166 countries. Below are examples of UNDP's current work in countries of particular interest to the U.S. Congress.

AFGHANISTAN

Delivering on the Bonn Agreement
UNDP was already present and working extensively in Afghanistan at the time of U.S. military intervention after September 11, 2001. UNDP was therefore well-placed to move swiftly to help the country face the challenges of forging a post-Taliban government. Since November 2001, UNDP has played a central role with the UN system in coordinating donor support for Afghanistan.

To aid the implementation of the Bonn Peace Process, UNDP set up the Afghan Interim Authority Fund—an innovatively flexible mechanism for quick resource mobilization, disbursement, and initial institution building. This fund paid for the emergency Loya Jirga, the traditional Afghan Grand Council that UNDP helped to convene. UNDP also helped set up the Afghan Interim Authority; rapidly resuscitate the national civil service, as well as the police force; draft a new constitution; hold three successful elections; and establish a new Afghan National Assembly.

UNDP remains highly engaged in Afghanistan, operating from all of the country's 34 provinces. Since the Bonn Agreement was signed, UNDP has delivered close to $1 billion of assistance to Afghanistan, including $336 million since 2002 from the United States. Among the programs UNDP supports are:

- Building the capacity of the Afghan Independent Elections Commission and successfully completing a voter and civil registry pilot exercise. In addition, UNDP, along with the UN Assistance Mission in Afghanistan and members of the international community, currently is engaged in discussions about the timing as well as legal, political, financial, operational and security considerations with regard to the next presidential and parliamentary elections in 2009.
- Building the capacity of civil servants and supporting the preparation of the Afghan national budget and helping the government prioritize funding allocation and coordinate aid.
- Supporting the establishment and implementation of a country-wide disarmament, demobilization and reintegration program. Through this program, 13,519 tons of ammunition and 334,025 pieces of anti-personnel mines were destroyed by March 2007. The program also focuses on disbanding illegal armed groups. By early 2007, a total of 29,251 weapons were collected and 1,496 illegal armed groups were engaged in the disbanding process.
- Managing a program of construction of approximately 1,400 houses for landless Afghan returnees and internally displaced persons (IDPs) north of Kabul.
- Assisting, in collaboration with the International Labor Organization, over 63,300 combatants who were demobilized in June of 2006 and their families to access viable employment opportunities in agriculture, service, and enterprise development through a national network of public Employment Services Centers.
- Constructing drainage channels in Jalalabad City to create a better business environment for shopkeepers and customers, a wider space for transport and commerce, as well as a more hygienic city environment. The construction work provided employment opportunities to local populations, with priority given to the most vulnerable groups of society such as returnees and IDPs, ex-combatants and the disabled.
- Creating alternative livelihoods to opium production while increasing agricultural production through the Counter Narcotics Trust Fund, which UNDP manages.

Total 2006 UNDP expenditures for Afghanistan were $201 million.

IRAQ

UNDP staff, based in offices inside the country as well as in Jordan and Kuwait, work throughout most of Iraq in the midst of an extremely challenging environment. UNDP activities in the country concentrate on rehabilitation of physical infrastructure; governance, economic advice, institution building and civil society; poverty reduction and human development; and mine clearance.

UNDP administers the UN Development Group's Iraq Trust Fund on behalf of itself and other participating UN organizations. This trust fund, along with another administered by the World Bank, was created to help donor nations (including the United States) channel resources and coordinate support for reconstruction and development in Iraq. To date, 25 donors have contributed $1.2 billion to the UN Development Group Iraq Trust Fund. As of the end of 2006, the fund transferred $886 million to UN agencies of which over 79% has been expended.

UNDP supported programs have included:

- Establishing an Aid Coordination Unit and a donor assistance database. With committed donations of almost $15.6 billion, this is the largest known database of its kind in the world. UNDP's support has included the provision of technical expertise, hardware, and software for this endeavor.
- Training the Board of Supreme Audit of Iraq, the country's independent audit institution, and strengthening the capacities of the Ministry of Planning and Development Cooperation as well as five other ministries. UNDP has also trained senior employees from the human rights and justice ministries in management and public administration and provided key legal texts to develop both ministries' libraries.
- Supporting local government by building capacity for strategic planning and decentralization of service delivery. For example, UNDP has assisted the Ministry of Municipalities and Public Works through the training of 90 middle managers on modern management skills.
- Creating, in collaboration with the Reuters Foundation a web-based news exchange called *Aswat al-Iraq*, or *Voices of Iraq* to address the information gap caused by the absence of a national news agency. The site currently publishes over 600 news items a month and is a credible source of information for more than 200 media institutions. UNDP is in the process launching a similar TV newscast initiative.
- Acting as the lead agency on poverty alleviation within UNAMI, supporting the adoption of poverty reduction policies, and revitalizing the private sector. During 2006, the UNDP Iraq Reconstruction and Employment Program generated over 113,200 workdays and employed more than 11,000 workers. UNDP is supporting local planning mainly in the deteriorated marshlands to promote local governance and effective service delivery to help rebuild these devastated communities.
- Rebuilding infrastructure, including in the electricity sector (repair of 18 major transmission lines; purchase and delivery of 165 diesel generators; rebuilding electrical distribution networks in nine major hospitals; purchasing mobile substations and large-scale testing equipment; and rehabilitating the National Dispatch Center); in the trade infrastructure sector (focusing on waterways management, as well as shipwreck, hydrographic, bathymetric, and other surveys, as well as Iraq's Civil Aviation infrastructure); and water and wastewater management (plans for potable and wastewater management as well as solid waste disposal, rehabilitation of key facilities including the water treatment plant that brings potable water to approximately one million Baghdad residents, and water and sanitation to Basra, including the port city of Umm Qasr).

Total 2006 UNDP expenditures for Iraq were $69.9 million.

PAKISTAN

UNDP is an important partner in Pakistan's national efforts to achieve its development goals and in

meeting international commitments. UNDP has contributed towards establishing policies, setting up governance institutions, as well as strengthening human and institutional capacities. Among the programs UNDP supports are:

- Supporting poverty reduction and gender equality through tailored advice, as well as technical and capacity building support toward the achievement of the Millennium Development Goals (MDGs).
- Promoting community-based development, in partnership with the provincial governments and communities, and improving the living conditions of poor communities in several urban and rural areas, organizing households at the grassroots level and enabling them to access water, sanitation facilities, microfinance services, skills training and improved natural resource management.
- Promoting gender equality including through helping district governments mobilize Musalihat Anjumans (a forum for alternate dispute resolution outside of the formal judicial system) in several Pakistani districts, and through microfinance and skills development that has enabled more than 1,000 women in the livestock and garment sectors to secure jobs.
- Encouraging the democratic process by training 51,000 Presiding Officers and 100,000 Assistant Presiding Officers in electoral laws and procedures and providing material to the Election Commission including 300,000 electronic voter screens, 430,000 transparent ballot boxes and 5.5 million seals.
- Supporting the Devolution Trust for Community Services which has caused the number of Citizen's Community Boards to increase rapidly, reaching a total of 16,324—enabling greater community participation in local development.
- Supporting a four-year performance appraisal of the National Assembly, the first study of its kind in Pakistan, and undertaking a training needs assessments for the secretariats of the National Assembly and the Senate covering areas such as research, legislative drafting and parliamentary oversight as well as establishing mechanisms for public outreach.
- Responding to and preparing for natural disasters, including in the aftermath of October 2005 earthquake in Pakistan, when UNDP's recovery and reconstruction programs reached out to the nine affected districts of the North West Frontier Province and Pakistan Administered Kashmir. In 2007, UNDP continued to respond to the effects of the 2005 earthquake through a combination of aid coordination, hardware support and capacity development. UNDP projects provide infrastructure, human resources, and management capacities to the federal, provincial, and local governments. In 2007 UNDP and its implementing partners were able to deliver approximately $42 million during a period that was marked by climatic disturbances and political upheaval.

SOMALIA

In Somalia, UNDP has played a key role in laying the foundations for democratic governance, including supporting the separation of legislative and executive powers, as well as building institutions to marginalize spoilers of peace, reconciliation, and development. UNDP supported programs have included:

- In February of 2006, facilitating the first session of the Transitional Federal Parliament in Somalia. To establish a secure environment for the successful sitting of this parliamentary session in Baidoa, UNDP in partnership with the UN's Office for the Coordination of Humanitarian Affairs (OCHA), members of the Transitional Federal Parliament, elders and local leaders, launched the Baidoa Reconciliation Conference Initiative. This initiative was instrumental in reconciling local communities, significantly contributing to the restoration of law and order and making the parliamentary session possible. Additionally, the initiative improved access for humanitarian assistance to vulnerable groups afflicted by conflict and drought.
- Supporting two key independent commissions, the Independent Federal Constitution Committee and the National Reconciliation Commission, through payment of stipends to commission members. In addition, through payment of stipends to the Somali police force and judiciary, UNDP has contributed to the strengthening of rule of law and access to justice in compliance with international human rights standards.

- Reducing poverty while addressing crises, such as with the Duduble Canal project, hailed across eastern Africa as a model of community-driven recovery. This project which created a major community-run environmental management system, including early warning systems and flood preparedness, soil conservation measures, agricultural training, crop marketing, and regular conflict management forums. Where once the entire area was strictly divided along clan lines, with roads riddled with roadblocks, former enemies now sit on collective management committees, people travel safely on open, newly repaired roads – and relatives meet without fear of reprisal.
- Carrying out a comprehensive poverty mapping exercise that provides the Somali administration and other development partners with critical data. UNDP surveyed approximately 7,000 settlements, 3,000 water points and 1,000 nomadic settlements, covering 90% of the country. This survey also compiled vulnerability characteristics and access to social services.
- Supporting the development of a five-year development plan by the authorities of Puntland as well as training planning and statistical staff in the three ministries on collection and compilation of critical socio-economic data as a part of a statistical capacity building program.

Total 2006 UNDP program expenditures for Somalia were $46 million.

SUDAN

In recognition of its significant and sustained presence, UNDP has been entrusted with managing several funds, including the Recovery and Rehabilitation Program funded by the European Commission, and the Common Humanitarian Fund in which nine UN organizations participate. Also, as the principal recipient for Global Fund grants to fight AIDS, tuberculosis, and malaria in Sudan, UNDP is responsible for financial and programmatic management, the procurement of health and non-health products, as well as capacity development services to sub-recipients and implementing partners. UNDP-supported programs have included:

- As one of the few organizations with a presence in all three states of Darfur, UNDP works from three sub-offices in extreme conditions, undertaking development activities in parallel with ongoing relief operations, and focuses on promoting rule of law; upholding human rights and combating gender-based violence; and providing legal protection to marginalized groups, IDPs and local communities. Since 2004, UNDP has been running a rule of law program in order to respond to the population's immediate needs for legal protection, while laying the building blocks for the restoration of rule of law. Through this program, UNDP has trained 10,000 civil society representatives and government officials on core principles of rule of law, human rights, and justice. In addition, UNDP has trained 150 paralegals, established seven legal aid centers, and established a legal aid network of 60 Darfurian lawyers that led to the prosecution of several court cases. UNDP's rule of law project helped in the conviction of almost 200 perpetrators in Darfur in 2006 alone.
- Starting up a livelihood support program that targets vulnerable communities and IDPs in the three states of Darfur—the only one of its kind in Darfur that addresses livelihood issues in a sustainable manner. Goals include identifying sources of large-scale employment generation such as the rehabilitation of irrigation systems and flood protection, reforestation, employment of teachers in IDP camps; creating certificate-based programs for internally displaced youth that train specific skills, such as agricultural practices and the use of natural resources; strengthening the capacity of local NGOs in management, budgeting, and planning skills; and developing economic organizations (for example, cooperatives, farmers' unions, micro credit providers).
- In **Southern Sudan**, supporting peace consolidation efforts by focusing on governance and rule of law institutions along with community-based initiatives to reduce insecurity and conflict. In 2006, UNDP facilitated the development of a strategic plan for each of the ten southern states, the Local Government Policy Framework, and the Governors Forum of Southern Sudan. In addition, UNDP established a legal advice center in Yei and rule of law forums in each of the 10 southern states. UNDP oversaw the nine-month training of 17 judges and legal officials in

Uganda, and helped train more than 3,000 police officers in partnership with the UN Mission in Sudan.

- Aside from Darfur and Southern Sudan, building the capacity of the national and local institutions as well as civil society to encourage a sustained recovery. With UNDP's assistance, a total of 48 national and international NGOs are working together in ten states to build water points, healthcare units, schools, and sanitation systems; design projects that provide families an opportunity to earn an income; improve the local administration's performance capacity; and respond to priority needs defined by the communities themselves. UNDP runs additional area-based recovery programs in Abyei and Southern Kordofan.
- Focusing on judicial reform, raising public awareness of legal issues, as well as legal aid and representation. In 2006, UNDP completed the training of 20,000 government officials and community members on core principles of rule of law, human rights, and justice. UNDP also completed the training of 375 paralegals, in addition to establishing 15 legal aid centers and a network of 100 Sudanese lawyers who provide legal advice and representation to vulnerable groups. UNDP also facilitated 150 rule of law workshops and rehabilitated police stations and courthouses in the country.
- Supporting Sudan's national disarmament, demobilization, and reintegration as well as mine action authorities as they develop their national programs. UNDP manages over $38 million in donor contributions to this end.

Total 2006 UNDP program expenditures for Sudan were $120 million.

Attachment 2

Assessments of UNDP

U.S. DEPARTMENT OF STATE

UNDP "priorities are fully consistent with U.S. foreign policy goals and complement U.S. bilateral efforts. Its near universal presence in program countries gives it credibility as a neutral platform for development activities… In line with U.S.-backed reform initiatives, UNDP has changed dramatically over the last five years. It has moved away from a pure entitlement system to one that includes performance-based criteria for country allocations and greater local capacity building through national execution. Furthermore, the organization has implemented decentralized decision-making, is reducing its headquarters staff, is putting greater focus on areas of "comparative advantage," and is advocating more forcefully for key global objectives such as poverty alleviation, and good governance." – **Secretary of State's FY 2002 Congressional Budget Justification**

UNDP "programs support U.S. strategic interests including economic development, democracy and human rights, and global growth and stability… Its projects target governance and institutional capacity building. UNDP has a near universal presence in developing countries and an important record of credibility. UNDP's country-level collaboration enables it to operate effectively in some of the developing world's most isolated and vulnerable people." – **Secretary of State's FY 2003 Congressional Budget Justification**

"UNDP's universality ensures its presence in the poorest countries and in those with the weakest governments. It assists these countries in developing the type of democratic governance and open and transparent institutions that will eventually qualify them to participate in the President's New Compact for Development. This is a long-term effort that few bilateral donors are willing or able to tackle on their own, but will undertake collectively through a multilateral organization." – **Secretary of State's FY 2004 Congressional Budget Justification**

"UNDP is present in most of the poorest countries and in those with the weakest governments. It assists these countries in developing the type of democratic governance and open and transparent institutions that can qualify them to participate in the President's Millennium Challenge Account… UNDP is a valuable partner in the Administration's efforts to avert major crises, including terrorism, extreme poverty, devastating diseases and environmental degradation, through effectively applied economic assistance." – **Secretary of State's FY 2005 Congressional Budget Justification**

"UNDP's programs are closely aligned with U.S. strategic interests. UNDP adopted five 'core goals' for its work in the next four years: (1) reduce human poverty; (2) foster democratic governance; (3) manage energy and environment for sustainable development; (4) support crisis prevention and recovery; and (5) respond to HIV/AIDS… it has transformed itself from a project financing entity into an organization focused on governance and institutional capacity building. UNDP has also instituted a results-based management system to monitor and improve its performance… At the country level, it provides services to nineteen agencies and manages the Resident Coordinator System --a system essential to shaping a common UN approach to the development needs of a country. – **Secretary of State's FY 2006 Congressional Budget Justification**

"[UNDP] has been a remarkable engine for pushing the issues of rule of law and democracy." – **Mark Lagon, Deputy Assistant Secretary for International Organizations (UNDP Washington Roundtable, Feb. 2006)**

STATE DEPT/OMB

UNDP "received excellent scores in regards to the program's purpose: to provide central funding and coordination of UN activities that advance economic and social development while combating poverty and disease worldwide… The program has responded to OMB's findings and recommendations by implementing measurable annual performance targets, an efficiency measure, and by effectively demonstrating that program managers are held accountable for achieving key U.S. objectives within the UN organization." – **The U.S. Office of Management and Budget's Program Assessment Rating Tool (PART, Feb. 2006)**

DFID [UK]

"UNDP topped the list of 23 multilateral agencies assessed by DFID in 2003-2004 against eight corporate systems: corporate governance, corporate strategy, resource management, operational management, quality assurance, staff management, monitoring evaluation and lesson learning, and reporting. Across these systems, UNDP scored 96 percent out of 100 on internal performance, 98 percent on country level results, and 98 percent on partnerships." – ***Assessing UNDP*, April 2005, in reference to the DFID [UK Government's Department for International Development] Multilateral Effectiveness Scorecard**

OTHER DONORS

"UNDP shows real strengths when it comes to its ability to assemble divergent points of view at collective discussion fora. UNDP has contributed to 'bringing different actors together', thus playing 'a leading role in several initiatives for policy dialogue'… 'Its lack of adequate financial resources' is perceived to hamper UNDP's 'capacity to contribute more effectively to national policy issues.'" – **MOPAN [Multilateral Organisations Performance Assessment Network] Survey, Contribution to policy dialogue, p.4 (2004); [consists of Austria, Canada, Denmark, the Netherlands, Norway, Sweden, Switzerland, and the UK]**

GINGRICH-MITCHELL – UN TASK FORCE

"The UNDP experience does hold out promise as a model for other parts of the United Nations. One crucial lesson is the importance of leadership. Successful reform required diligent, persistent effort, clear vision, and the capability to 'sell' both member-states and staff on the need for specific changes… The recent reform of UNDP has given added weight to its role as a key coordinating body. But its main function continues to be its special relationship with host governments, promoting transparency and good governance, and improving the planning of development." – **Gingrich-Mitchell USIP Task Force on UN Reform (June 2005)**

2007 GLOBAL ACCOUNTABILITY REPORT

UNDP received top ranking on the 2007 Global Accountability Report by One World Trust, a leading expert in the field of global governance and accountability. UNDP is among 30 of the world's leading organizations from intergovernmental, non-governmental, and corporate sectors assessed by One World Trust according to four widely-accepted dimensions of accountability: transparency, participation, evaluation, and complaint and response mechanisms. UNDP ranked highest overall. – **One World Trust, 2007 Global Accountability Report (December 2007)**

Attachment 3

Responses to Recent Allegations about UNDP Programs in North Korea (DPRK) *

Allegations	UNDP Responses
1. UNDP has recently transferred more than $15 million to the North Korean government, which has been used to purchase nuclear technology, weapons, real estate and/or luxury items for the leadership.	False. From 1997 until the suspension of its programs in North Korea in March 2007, UNDP made direct transfers to the designated North Korean government agency (National Coordinating Committee for UNDP, or NCC/UNDP) totaling just $370,695. Furthermore, over the same period, of the $29.6 million UNDP has expended on all North Korean projects (or roughly $3 million per year), less than half of that money actually entered North Korea, having been expended on staff salaries and expenses outside of the country or with vendors supplying equipment for specific projects within the country. Total funds expended on behalf of other UN agencies for projects in North Korea averaged an additional $1 million per year--but, once again, very little of this money was transferred directly to the North Korean government, and all expenditures are fully documented with receipts, activity reports, and written communications. UNDP has strong financial management systems in place and has undergone a further detailed review of its activities in North Korea to verify the purposes, recipients and uses of all its funds. Its programs there have been regularly approved by the UNDP Executive Board, which includes the United States.
2. UNDP used large amounts of cash for many of its transactions in North Korea.	False. UNDP conducted its business in North Korea by means of check and bank transfers rather than cash. Where vendors or employees did not have bank accounts (which are difficult to obtain in North Korea), UNDP paid with "cash checks", i.e. endorsable checks made out to particular individuals. Use of this term may have caused confusion, but UNDP has been able to verify that it wrote checks only to individuals and not to "cash", with appropriate receipts and authorizations.
3. UNDP facilitated the use or transfer of counterfeit currency by the North Korean government.	False. The only evidence to date involving a connection between UNDP and counterfeit currency was the storage in a UNDP office safe in Pyongyang since 1995 of $3,500 in counterfeit currency belonging to a former Egyptian consultant to UNDP who had been paid by the North Korean government in false U.S. currency. That money had been defaced by an Egyptian bank, according to banking rules relating to counterfeit currency, and therefore was not usable. It was stored at the request of the consultant who was seeking UNDP's assistance in obtaining restitution in valid currency from the North Korean government. UNDP's efforts were not successful and the currency remained in the office safe indefinitely. At the time, there was not a clear UNDP policy about the disposition of such currency, but such a policy is now being finalized.

*The above allegations have appeared in various documents and media reports. They are among the issues under investigation by the External Independent Investigative Review panel commissioned by UNDP. That review is being led by former Prime Minister of Hungary, Miklos Németh, who later became a Vice-President of the European Bank for Reconstruction and Development in London and a member of the Advisory Board of Transparency International. The other two members are Mary Ann Wyrsch, former President and the Executive Director of the Bush-Clinton Katrina Fund, former United Nations Deputy High Commissioner for Refugees, and former acting commissioner of the U.S. Immigration and Naturalization Service, and Chander Vasudev, a former high level official of the Indian Finance Ministry.

4. UNDP has supplied equipment of significant military value in defiance of national export control restrictions.	False. UNDP requires suppliers of products and equipment to obtain any necessary export licenses from the national governments where those products originate. Two examples have recently drawn particular attention. In 2000, UNDP purchased a Geographic Information System (GIS) from Australia, and, in 2006, purchased a GPS system and a high-end spectrometer from Holland. This type of equipment is increasingly common in many developing countries to assist with land use classification, crop yield estimation, and monitoring of natural disasters, and it is readily available off-the-shelf. In both cases, UNDP's suppliers were not required to obtain export licenses from their respective governments for the equipment involved.
5. UNDP has been unable to monitor its development projects in North Korea to assure that funds are properly utilized, and it had to obtain government approvals before traveling to observe its own development projects.	False. UNDP has been able on a regular basis to visit and observe all of its projects in North Korea to confirm the use of funds, equipment and staff and to evaluate project effectiveness. Government requirements of prior notice for project visits are standard in many countries where UNDP operates, as is the protocol that Government counterparts participate in the visits. In North Korea these requirements could be burdensome, but there is no indication that they resulted in significant interference with the execution and monitoring of UNDP's projects. Many activities that UNDP supported in North Korea did not have "sites" to visit (e.g. training and study travel abroad for officials to gain understanding of the outside world), but could be monitored effectively in other ways. Since 1979 UNDP's projects in North Korea have centered on improving the living conditions of the population: among other things UNDP's presence in North Korea allowed for a more effective international response to the horrific famines the country experienced in the 1990s, and in recent years have focused on food production, rural and environmental sector management, economic management and social sector management.
6. UNDP operated in North Korea despite government requirements that it hire only local nationals employed by the government and that it pay only in hard currency—conditions which contradict UNDP's standard approach on such matters.	True. From 1979 to early 2007, UNDP accepted the conditions imposed by the North Korean government on employing local nationals and using hard currency as the only basis for operating in the country. They are the same conditions observed by other UN agencies, international NGOs and those national diplomatic missions operating in the country (including many Member States of UNDP's Executive Board). These issues were last brought before the UNDP Executive Board in 2001. However, following concerns raised by the United States and endorsed at UNDP's January 2007 Executive Board meeting, UNDP informed the North Korean government that it was no longer willing to follow the conditions placed on local hiring and currency use. The North Korean government indicated that it was not prepared to remove these conditions, and UNDP therefore suspended its program in North Korea as of March 2007. All other UN agencies and foreign embassies in North Korea continue to operate under these same conditions.

7. UNDP retaliated against a former contractor who sought to "blow the whistle" and expose serious problems in its North Korea operations.	This case is under consideration by the External Independent Investigative Review referenced above, and upon the conclusion of their work in March, may be referred to the U.N. Ethics Office. The contractor in question worked for UNDP on various short-term contracts over the past 13 years for a total tenure of about 2 ½ years. His services were not renewed upon expiration of his last three-month contract because the budget for that project was discontinued. He did not invoke UNDP's existing protections against retaliation ("whistleblower" protections) and did not cooperate with UNDP's own investigation of allegations about North Korea, so it is not clear what problems he sought to identify.

8. UNDP is naïve and ineffective in dealing with authoritarian, fragile or corrupt governments.	False. UNDP has years of experience operating in the most difficult countries in the world, including those in the midst of conflict or turmoil, such as Afghanistan, Iraq, Pakistan, Somalia and Sudan. Our headquarters and local leadership are particularly attuned to the challenges of working with governments who might seek to divert development programs for political or personal advantage. Additional financial safeguards are included in problematic circumstances, and members of UNDP's Executive Board, including the United States, exercise special scrutiny of all programs in these locations. For a recent GAO review of UN programs in Burma, for example, including assessments of UNDP's projects there, see GAO-07-457: "International Organizations, Assistance Programs in Burma" (April 2007).

Senate Subcommittee on Investigations
Committee on Homeland Security and Government Affairs
Briefing Statement
On behalf of the Secretary-General
24 January, 2008

By letter dated December 21, 2007, the Subcommittee on Investigations (Homeland Security and Government Affairs) requested Mr. Robert Benson, Director of the Ethics Office of the United Nations Secretariat, to brief the Subcommittee on 24 January, 2008 in relation to two issues, namely: (i) the jurisdiction of the Ethics Office of the United Nations Secretariat in relation to cases of retaliation from Funds and Programmes, and (ii) the adequacy of whistleblower protections within the UN system.

In accordance with the United Nations policy regarding UN officials being requested to appear before the legislative bodies of Member States, a UN official, with the approval of the Secretary-General, may provide information to such bodies provided it is achieved by means of a briefing conducted on an informal basis. In this regard, it is understood that on Thursday, 24 January, 2008, following the adjournment of the formal proceedings of the Subcommittee on Investigations (Homeland Security & Government Affairs), the Subcommittee will reconvene informally in order to be 'briefed' by United Nations Development Programme officials and the Director of the Ethics Office of the United Nations Secretariat.

On behalf of the Secretary-General, the following briefing statement is provided as requested.

Establishment and jurisdiction of the Ethics Office of the United Nations Secretariat, and establishment of separate ethics offices for Funds and Programmes

In paragraph 161(d) of the World Summit Outcome Document (General Assembly resolution 60/1 of 16 September 2005), the Heads of State and Government:

> "(d) Welcome[d] the Secretary-General's efforts to ensure ethical conduct, more extensive financial disclosure for United Nations officials and enhanced protection for those who reveal wrongdoing within the Organization. We urge the Secretary-General to scrupulously apply the existing standards of conduct and develop a system-wide code of ethics for all United Nations personnel. In this regard, we request the Secretary-General to submit details on an ethics office with independent status, which he intends to create, to the General Assembly at its sixtieth session".

Pursuant to the provisions above, the Ethics Office was established as a new and independent office within the United Nations Secretariat reporting directly to the

Secretary-General. The terms of reference of the Ethics Office are set out in Secretary-General's bulletin ST/SGB/2005/22. The objective of the Ethics Office, as set forth in that bulletin, is to assist in ensuring that all staff members observe and perform their functions consistent with the highest standards of integrity, as envisaged in the Charter of the United Nations. The Office does not replace any existing mechanism available to staff for reporting misconduct or resolving grievances.

In accordance with paragraph 161(d) of the World Summit Outcome Document, the Secretary-General promulgated a Secretary-General's bulletin ST/SGB/2005/21, entitled "Protection against retaliation for reporting misconduct and for cooperating with duly authorized audits and investigations". The responsibility for implementing the policy on protection against retaliation was vested in the Ethics Office of the United Nations Secretariat.

The above-mentioned bulletin, however, applies only to the United Nations Secretariat and not to Funds and Programmes. As a consequence, the Secretary-General, in reiterating his commitment that the UN system upholds the highest ethical standards and that these standards be implemented system-wide, indicated that he would, in consultation with the Heads of all of the Funds and Programmes, address the issue of uniform application of ethical standards at the October 2007 meeting of the Chief Executive Board.[1]

In the Secretary-General's Annual Report on Activities of the Ethics Office (A/62/285), dated 21 August, 2007, the issue of system-wide application of the jurisdiction of the Ethics Office of the United Nation Secretariat was specifically raised. Paragraph 73 of that Report provides that since the Ethics Office does not have responsibility and jurisdiction system-wide:

> "...the General Assembly may wish to consider broadening the jurisdiction of the Ethics Office to cover all United Nations system entities and to provide further guidance on this matter."

Having considered the Secretary-General's comment mentioned above, the United Nations Advisory Committee on Administrative and Budgetary Questions (ACABQ), in its report (A/62/7/Add.14) of 16 November, 2007, stated that:

> "...it would first be necessary for the Assembly to consider whether other United Nations entities, such as the Funds and Programmes, should have common ethics policies and standards and, if so, whether they should be centrally or separately administered. Accordingly, the Committee

[1] Chief Executives Board (CEB) furthers coordination and cooperation on a whole range of substantive and management issues facing United Nations system organizations. The CEB brings together on a regular basis the executive heads of the organizations of the United Nations system, under the chairmanship of the Secretary-General of the United Nations.

recommends against broadening the jurisdiction of the Ethics Office, at this time."

However, as indicated above, the Secretary-General also stated that he would address the issue of uniform application of ethical standards at the October 2007 meeting of the Chief Executive Board. At the conclusion of that Chief Executive Board meeting on 27 October, 2007, the Heads of the Funds and Programmes agreed to establish one ethical code and one system of ethics within which they would operate. As a consequence, Secretary-General bulletin ST/SGB/2007/11, entitled "United Nations system-wide application of ethics: separately administered organs and programmes", was issued on 30 November, 2007.

Adequacy of Whistleblower Protections

With the issuance of ST/SGB/2007/11, a framework was created within which a unified set of ethical standards and policies will be established and applied. Fundamental to this, was the creation of the United Nations Ethics Committee, which will be chaired by the Director of the Ethics Office of the United Nations Secretariat. The United Nations Ethics Committee's mandate, as provided for in this bulletin, is to establish a unified set of ethical standards and policies.

While the Funds and Programmes may create their own ethics offices, the Chair of the Ethics Committee is responsible for providing functional leadership to all ethics officers of the Funds and Programmes. In addition, should a Fund or Programme fail to appoint or designate an Ethics Officer by January 2008, the Ethics Office of the United Nations Secretariat will handle the ethics-related issues, until the Fund or Programme concerned designates an Ethics Officer.

Staff members of the Funds and Programmes by virtue of this Bulletin have the following rights , including the right for protection from retaliation cases:

(i) If the Ethics Office of a Fund or Programme has not formally considered a request for protection from retaliation within 45 days, the staff member may request the Chair of the Ethics Committee (i.e., the Director of the Ethics Office of the United Nations Secretariat) to conduct his own independent review of the matter.

(ii) Following a decision having been made in relation to a protection from retaliation case by an Ethics Office of a Fund or Programme, a staff member has a right of appeal to the Chair of the Ethics Committee.

(iii) In the absence of a Fund or Programme having in place a policy for the protection from retaliation, staff members will be able to avail themselves of the protections permitted under ST/SGB/2005/21 administered by the Ethics Office of the United Nations Secretariat.

Moreover, in the interests of oversight and transparency, a summary of any matters referred to the Chair of the Ethics Committee, by a staff member of a Fund or

Programme, as referred to above, must be included in the Annual Report to the General Assembly on Activities of the Ethics Office of the United Nations Secretariat.

As discussed above, with the issuance of Secretary-General's bulletin ST/SGB/2007/11, particularly in relation to protection from retaliation cases, the interests of staff members of the Funds and Programmes have been taken into consideration.

Report of the Board of Auditors on the Special audit requested by the ACABQ into activities of UNDP, UNFPA, UNOPS and UNICEF in the Democratic People's Republic of Korea (DPRK)

31 May 2007

Permanent Subcommittee on Investigations
EXHIBIT #1a

Table of Contents

		Page
1.	Background	3
2.	Scope of work	3
3.	Major findings of the review	6
4.	Detailed findings	6
4.1	Staff hiring	6
4.2	Foreign currency transactions	16
4.3	Access to projects	22
5.	Review of internal audit reports	27
6.	Conclusion	28

Annexes:
Annex I: ACABQ letter dated 9 February 2007
Annex II: Letter from Controller dated 25 January 2007
Annex III: Letter from Chairman of BoA dated 22 February 2007
Annex IV: Letter from Chairman of AOC dated 2 March 2007
Annex V: Chronological record of payments to local staff and suppliers in foreign currency
Annex VI: Sample of payments from Euro account prepared by UNDP
Annex VII: Project listing for UNDP, UNFPA and UNOPS
Annex VIII: Project listing for UNICEF
Annex IX: Internal audit reports status: UNDP, UNFPA, UNICEF

1. Background

1. On 9 February 2007, pursuant to Article VII of the Financial Regulations and Rules of the United Nations, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) requested the Board of Auditors (letter attached as annex I) to carry out a special audit of the operations of the United Nations organisations in the Democratic People's Republic of Korea (DPRK), including the United Nations funds and programmes which fall within the Board's mandate and to report its findings to the ACABQ.

2. In the ACABQ's request to the Board of Auditors, it drew the Board's attention to a letter dated 25 January 2007 (refer annex II) from the Controller of the United Nations, on behalf of the Secretary-General on the same topic, wherein the Controller indicated that the scope of the specific examination focus on past and current compliance with the applicable Financial Regulations and Rules, accountability frameworks and other directives as well as to ensure that money expended in DPRK went to intended recipients. The Controller's letter further explained that the three focus areas to be reviewed should include foreign currency transactions, staff hiring, access to reviewing local projects and their outputs, including direct payment for National Execution (NEX) projects.

3. In the confirmation of the Chairman of the Board of Auditors addressed to the ACABQ dated 22 February 2007 (English translation attached as Annex III), the Board wrote that the audit will include a preliminary review in New York of the operations of UNDP, UNFPA, UNOPS and UNICEF, and that the purpose of the preliminary review, the outcome of which will be addressed to the ACABQ for further consideration, will be the drafting of a detailed audit scope.

4. In further correspondence from the Audit Operations Committee (AOC) addressed to the ACABQ dated 2 March 2007 (Annex IV), the Chairman of the AOC stated that the scope of this audit covers the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Office for Project Services (UNOPS) and the United Nations Children's Fund (UNICEF), and the Board will report to the ACABQ and management any preliminary findings, the Board's detailed audit plan and any procedures for the on-site phase for ACABQ consideration. This letter further requested a *note verbale* to be issued to the DPRK authorities for assistance with travel arrangements.

5. This report constitutes the result of our work in terms of the above work-plan.

2. Scope of work

6. This review was conducted in terms of the common auditing standards of the Panel of External Auditors of the United Nations, the specialised agencies and the International Atomic Energy Agency and relevant International Standards of Auditing.

7. In accordance with the ACABQ's request, the scope of work for this preliminary phase was limited to these four entities, namely:

(a) United Nations Development Programme (UNDP);
(b) United Nations Population Fund (UNFPA);
(c) United Nations Office for Project Services (UNOPS), and
(d) United Nations Children's Fund (UNICEF).

8. The Board noted that in addition to these four entities, other UN entities and specialised agencies were also active in DPRK, which were not within the scope of this audit engagement.

9. The work focused on the five year period from 1 January 2002 to 31 December 2006.

10. The audit team was comprised with members representing the three members of the Board of Auditors, and was led by the Auditor General of South Africa, in his role as lead auditor of UNDP. After acceptance of the special audit engagement by the Chairman of the Board of Auditors dated 22 February 2007, the team was constituted, and the preliminary audit commenced in New York on 19 March 2007.

11. The scope of the work as contained in the ACABQ request (Annex I) focused on foreign currency transactions, staff hiring and access to reviewing local projects. The work undertaken by the team is described as:

(a) Gathering and examining documents and reports;
(b) Reviewing background papers;
(c) Interviewing personnel; and
(d) Verifying evidence of findings previously raised by the internal audit departments of the various entities.

12. This special audit in the three focus areas does not constitute a full-scope country office audit, which normally covers a number of other components, based on the Board's risk assessment in a financial statement audit. Because of the limited scope of this assignment, the Board does not express any opinion on the financial results of any of the DPRK activities of the four entities.

13. In complying with the mandate of the Board, the letter of request (Annex I), and the timing of the engagement, certain aspects were not covered as described below:

(a) Any work undertaken by the Board is conducted in accordance with Article VII of the Financial Regulations and Rules of the United Nations, which limits the work of the external auditor to audit matters, and does not extend to investigation or evaluation;

(b) No complete set of financial statements of the UN-related DPRK activities were submitted for audit as separate country office financial statements are not normally prepared;
(c) The audit was limited to personnel and documents made available in New York;
(d) No on-site validation of results was performed during this phase;
(e) The audit work was based on sampling, which may not detect any and all misstatements in the accounting records;
(f) The Board did not test the validity of payments to ultimate recipients as it does not have access to financial records outside the UN system;
(g) While extensive documents were gathered and made available to the Board, only certain substantive audit procedures were focused on during this preliminary phase; and
(h) The Board has no powers or mandate of inspection, discovery or subpoena, or specific responsibility to review implementation of Security Council resolution 1718.

14. The Board's work was limited to the scope of requests of the ACABQ. Consequently, certain other matters which have come to the Board's attention were not covered during this phase of the special audit. These are:

(a) The evaluation of qualifications, skills, duties and performance of local staff;
(b) The control and rules over the activities of local staff;
(c) Application of the rules of DSA percentage for local staff;
(d) The level of prices paid for procurement of goods and services and the rate of exchange applied;
(e) The occurrence of alleged counterfeit currency in the UNDP country office (para. 72);
(f) The assignment of responsibility for non-compliance (accountability); and
(g) The consistency between country office targets and contribution estimates, and UNDP headquarters records.

15. All four entities cooperated with the Board, making documents, personnel and explanations available as requested.

4. Major findings of the review

16. The Board has reached the following conclusions in respect of the three focus areas vis-à-vis staff hiring, foreign currency transactions and access to local projects.

17. The Board's major findings are that:

(a) In respect of local staff hiring, personnel were hired by UNDP, UNFPA and UNICEF through a government agency of DPRK, contrary to relevant instructions and procedures (paras. 22, 24, 27, 28, 35, 43, 45 and 47);

(b) In respect of foreign currency transactions, local payments made in foreign currencies were without requisite authority in the case of UNDP, UNFPA and UNOPS (paras. 52, 58, 59, 60, 69 and 71); and
(c) In respect of free access to local projects, the Board obtained evidence that project visits had taken place, but were done under the supervision of the DPRK authorities, except for one reported project in UNICEF.

18. The Board has during this preliminary phase satisfactorily concluded on the three focus areas. Accordingly, no further audit procedures have been suggested for the Board to perform.

19. The Board further noted that:

(a) there were different procedures practiced among the four entities in respect of all three focus areas; and
(b) there were differences in the treatment of payments throughout the period within each entity.

20. In common with UNDP's operations in many countries, UNDP provided administrative support, which include processing of payments and record-keeping on behalf of UNFPA and UNOPS in DPRK (as well as other entities). Accordingly, some of the Board's observations were common to UNDP, UNFPA and UNOPS.

4. Detailed findings

4.1 Staff hiring

21. The audit objective of this focus area is to determine whether the entities employed local personnel in accordance with the relevant United Nations Regulations, Rules and procedures.

22. Three of the entities (UNDP, UNFPA and UNICEF) employed local personnel who were selected, nominated and appointed by the Government of DPRK. UNOPS did not maintain a local office in DPRK and did not directly employ any local staff in DPRK. Table 2 shows the local personnel statistics by entity.

Table 1
Local staff personnel (and international staff summary)

Posts	UNDP * (28 February 2007)	UNFPA (23 March 2007)	UNICEF (23 March 2007)
Programme Professional Staff	4 National Programme Officers 1 Programme Support Unit	1 National Programme Officer	1 WES Professional ** 1 Health Professional 1 Education Professional 2 Nutrition Professionals
Secretary	1 Secretary	1 Secretary	1 Secretary
Administrative Staff	2 Administrative Officers 1 Administrative Assistant		1 Administrative Officer 1 Supply Assistant 1 Admin Clerk/ Receptionist
IT Staff	1 LAN Manager		1 IT Officer
Finance Staff	1 Finance Officer 1 Finance Assistant	1 Finance Assistant	
Driver	6 Drivers 2 Cleaners 1 Gardener 1 Cook	1 Driver	5 Drivers 2 Cleaners 1 Gardener 1 Cook 1 Truck Driver
Total *(Local staff)*	**22**	**4**	**20**
International Staff	*9 (including Resident Representative)*	****1*	*10*

Source: supplied by the entities
* - before suspension of activities
** - WES – Water and Environmental Sanitation Programme
***- Excludes the non-resident Country Director

23. The Board's work in respect of staff hiring focused on:

(a) Agreements with the government on employment of local staff;
(b) Local staff recruitment procedures;
(c) Process of payment of salaries;
(d) Scale of salaries;
(e) Meal allowances; and
(f) Duration of contract and separation procedures.

24. The Board noted that in the Report of the Executive Board of UNDP and UNFPA on its work during 2001 (E/2001/35), the Executive Board took note of the Country Review Report for the Democratic People's Republic of Korea (DP/CRR/DRK/1) dated 13 July 2001. That country review report brought to light then some of the matters which were the subject of this audit, such as:

(a) *"Country office and national project national staff cannot be hired on the open market but are allocated by the two national executing agencies, while retaining their affiliation with their respective line ministries. Hence, it is difficult to separate their roles and responsibilities"* (paragraph 41);

(b) *"All national staff (both at the general service and professional level(s) are seconded from the Government. UNDP reimburses the Government for their salaries. Staff do not have UNDP contracts. Therefore, there are no UNDP staff performance reviews, and there is no salary component related to performance. UNDP has few options in its staff selection"* (paragraph 59).

Agreements with the Government on employment of local staff

UNDP

25. The Board noted that UNDP's Standard Basic Assistance Agreement with the Government of DPRK, dated 8 November 1979, has no specific provision for employment of local staff. However, local personnel assistance is mentioned in Article VI, (Assessed programme costs and other items payable in local currency): "*3. The Government shall also contribute towards the expenses of maintaining the UNDP mission in the country by paying annually to the UNDP a lump sum mutually agreed between the Parties to cover the following expenditures: [...] (b) Appropriate local secretariat and clerical help, interpreters, translators and related assistance*".

26. This Article refers to the UNDP procedure of GLOC (Government local office costs), i.e. contributions made by the host Government towards the expenses of maintaining the UNDP country office. The Government of DPRK does pay GLOC in local currency to a non-convertible KPW[1] bank account held by the UNDP in Pyongyang. This is more fully discussed in the section on Foreign Currency Transactions.

27. The 1979 Basic Assistance Agreement with the Government of DPRK did not provide any detail of the practice and procedures for the employment of local staff and so ad-hoc practices developed. The formal practice and procedures for employing local staff were contained in a draft, unsigned and incomplete service agreement between UNDP and the Government, dated 10 February 1981. A copy of this document has been provided by UNDP to the Board. The draft document refers to an annex 1, which was to describe the scope of services, but was not provided to the Board. The Board's findings elsewhere in this report indicate where some of the clauses of this draft document may contravene UNDP staff rules. The document states *inter alia* that:

(a) The General Bureau for Affairs with the Diplomatic Corps (GBADC) of the Government of DPRK will provide services to the UNDP office (Article 1). However, "*UNDP remains free to meet its requirements from sources outside the Bureau [...]*" (Article 2);

(b) Local staff provided by the GBADC "*remain the employees of the Bureau; UNDP thus has no obligations towards those persons provided by the Bureau [...] under United Nations Staff Regulations and Rules*". (Article 3);

[1] North Korean Won, DPRK local currency

(c) Monthly salaries for local staff due by UNDP are "*determined by mutual agreement between the Bureau and the Resident Representative*" (Article 4);

(d) Payments for overtime and travel costs "*will be made according to regulations issued by the Bureau*" (i.e. by GBADC) (Article 4);

(e) "*All payments will be made in local currency on the basis of monthly invoices submitted to the Resident Representative*" (Article 4);

(f) The GBADC "*will propose persons to provide the services*" and "*will submit to the Resident Representative the detailed Curriculum Vitae of such person*" (Article 7). No specification was made about providing one or several candidates for each post;

(g) "*The duration of service [...] will be determined on the basis of agreements between the Bureau and the Resident Representative*" (Article 9) and "*Removal of persons* [...] *will be effected only on the basis of mutual agreement*" and "*in such a manner as to avoid discontinuity of services*" (Article 8).

28. No signed copy of this agreement was provided to the Board. Copies of the correspondence between the Government of DPRK, the UNDP Resident Representative in DPRK, the Division of Personnel (UNDP) and the Office of Legal Affairs of the United Nations, spanning the period February to June 1981, indicated reluctance on behalf of the Government of DPRK to consider such a Service Agreement, and based on this assumption, the Director of the Office of the Legal Counsel suggested that *"the ad-hoc arrangements be continued until such time as the DPRK indicates a willingness to be more flexible"*.

UNFPA

29. UNFPA was part of UNDP when the original 1979 agreement was signed, and there is no evidence that UNFPA has subsequently, entered into a specific Standard Basic Agreement with the Government of DPRK. On 22 February 2006, the Government of DPRK in a letter stated that " ... *the cooperation between the government of DPRK and UNFPA will be continued in accordance with the Standard Basic Assistance Agreement between the DPRK government and the UNDP signed on 8 November 1979, which is applicable mutatis mutandis to UNFPA.*"

UNOPS

30. UNOPS does not have any basic agreement entered with the Government of DPRK and has no local staff in DPRK. UNOPS also was part of UNDP until December 1994, and does not usually have Standard Basic Agreements in most countries that it operates in as it is a service provider to UN organizations and as such works under the specific agreement of the UN Resident Coordinator or other UN entity.

UNICEF

31. UNICEF's Standard Basic Cooperation Agreement with Government of DPRK dated 28 October 1996, states in Article XVII (Locally Recruited Personnel Assigned to Hourly rates) that: "*The terms and conditions of employment for persons recruited locally and assigned to hourly rates shall be in accordance with the relevant United Nations resolutions, decisions, regulations and rules and policies of the competent organs of the United Nations including UNICEF. Locally recruited personnel shall be accorded all facilities necessary for the independent exercise of their functions for UNICEF.*"

Local staff recruitment procedures

32. The Board noted that all local staff in UNDP, UNFPA and UNICEF offices are seconded from the Government of DPRK. An exchange of letters is made with the Government to approve the recruitment of each staff member. Although these local personnel are called staff, (and were employed through the Government and do not have employment contracts), UNDP considered that its staff rules do not apply to such persons. The Board, in its view, considered that despite this interpretation, local personnel were dealt with and accorded some rights and privileges of UNDP personnel, and so the hiring practices were evaluated against the entities relevant policies and rules.

33. The UNDP Personnel Manual provides for secondment of government officials in national officer posts (OHRI, Chapter II, section 10204, § 4.0): "*Designated national officer posts in UNDP field offices may be filled, under certain conditions by government officials through a secondment arrangement. Seconded government officials can serve to strengthen these offices by providing them with a perspective of the recipient Government. At the same time, government officials who return to government service at the end of the secondment will have gained valuable experience through greater involvement in the programme itself.*"

34. In addition, the UNDP Personnel Manual states that "*All UNDP requirements for the employment of national officers must be met in respect of the employment of the seconded government officials. The Government should be informed of these requirements and that UNDP reserves the right to reject candidates.*"

35. The Board noted that certain local staff recruitment procedures were not compliant with the UNDP Personnel Manual referred to above. Evidence of this is described below:

(a) No Letters of Appointment were supplied to audit for all appointments as seconded government officials have no Appointment Letters from the UN Country Office;

(b) The practice applied in staff secondments is that the Government of DPRK, except in rare cases, provides only one candidate for each job, while the UNDP

rules for the recruitment of seconded government officials states that "*the Government is required to submit a list of qualified candidates to the resident representative (cf.* OHRI, Chapter II, section 10204, § 4.0, 5.);

(c) Secondment of government personnel to the UNDP country office is provided for in the Manual only for national officer posts, but not for general service staff posts;

(d) UN rules on recruitment and appointment require that the following information be provided: form "P11" biographical data, copy of university degrees, medical examination, and copy of birth certificate. Neither the Government nor the candidates provided the documentation required.

Process of payment of salaries

36. The salaries and meal allowances of local staff employed by the UN offices of UNDP, UNFPA and UNICEF were paid to the Government and to local staff respectively as summarised in the table below.

Table 2
Method of payment of personnel costs[2]

	UNDP/UNFPA	UNICEF	Comment
Salaries			
Level of salaries			Salaries are paid based on a salary scale communicated by the Government
Mode of payment	Manual cheque payments	Bank transfer and cheques	No monthly invoice by the Government
Currency of payment**	In convertible KPW prior to early 2004, then in Euro	In US$ until 2004, then in Euro[3]	
Meal allowances			
Mode of payment	By cheque made to one person in the office	By cheque made out to the UNICEF cashier who draws the money and disburses it to the individual staff against receipt	
Currency of payment**	In convertible KPW prior to 2001, then in US$, switched to Euro in December 2002	In US$, switched to Euro between 2002 and 2004	
DSA*			
Level of allowances			Rates unified in 2001 for all UN offices in DPRK: 100% of international DSA for National

[2] As indicated in the interviews and documents provided to audit ;
[3] Cf. letter from the Government of DPRK to the UNICEF office dated 21 May 2004 requesting the payment of salaries in Euros.

			professional officers, 75% for General Service, 50% for drivers
Currency of payment **	In convertible KPW prior to 2001, then in US$, switched to Euro in December 2002	In convertible KPW prior to 2001, then US$, switched to Euro between 2002 and 2004	
Overtime and travel costs			
Mode of payment	Manual cheque payments	Same modality as meal allowance	
Currency of payment **	Local staff requested in 2001 that overtime (for eligible GS staff) and in-country travel costs be paid in US$; switched to Euro in 2002		

*daily subsistence allowance for overnight travel
** currency of payment may have been non-convertible KPW prior to 1995-1997.

37. The Board was informed that all salaries were paid through the Government. During this preliminary phase, the Board did not perform alternative procedures to confirm whether all payments were released in full by the Government of DPRK to the staff members.

38. UNDP explained that arising from movements in exchange rates in February 2004[4], the country office requested UNDP headquarters for approval to disburse the monthly payroll in Euro instead of KPW to the government.

39. This approval was obtained by the country office from UNDP Headquarters Treasury and Human Resources Department. As is shown in Table 2, meal allowances, DSA, overtime and travel costs were already made in Euro prior to February 2004. The Board noted the instruction of UNDP headquarters to abandon this practice early in 2007. The Board was informed that this instruction was also implemented by UNFPA.

40. A note signed by the then UNDP Resident Representative (RR), in May 2004, indicated that the monthly salary for local staff will be paid in Euro effective January 2004 to address fluctuations in the exchange rate. Attached to this note is correspondence between the country office and treasury requesting advice on how to proceed. Treasury advised the country office that it *"had no concerns if you issued payroll in Euro as opposed to won, unless you have a belief that you will have a buildup of local currency that cannot be expended."* Further correspondence from OHR indicated that *"staff in DPRK are not technically UN staff but on contract from the government. Therefore the common system rules on currency of payment do not strictly apply. I would suggest that certainly consultations among UN agencies take place to ensure alignment in practice."*

[4] The note is dated 25 February 2003, but was received in 2004.

Scale of salaries

41. For all entities, the level of salaries is determined according to a salary scale communicated by the Government. No evidence was supplied to the Board that a salary survey has ever been conducted by the UN entities in DPRK.

42. UNDP and UNFPA personnel were paid in convertible KPW until early 2004.[5] Since that date, payments have been made in Euro. The monthly salary is €358.50 for national officers and from €243 to €315 for drivers, cleaners and gardeners.

43. Table 3 illustrates the increase in the salary scale for national officers since 2002. These increases were requested by the DPRK authorities. The Board was not advised of the basis for the increases, and noted that these increases were not originally budgeted for.

Table 3
Level of salaries of locally recruited personnel (national officers)

Period	Monthly salary in US$	Indicative Monthly salary in Euro	Indicative Monthly salary in KPW	Exchange rate
1/01/02-31/07/02	233.44		501.90	1 US$=2.15 KPW
1/08/02-30/06/03	246.97		37,045.00	1 US$=150 KPW
1/07/03-30/09/03		274.85	42,601.75	1 Euro=155 KPW
1/10/03-31/12/03		310.70	48,158.50	1 Euro=155 KPW
1/01/04-March 04		358.50	55,567.50	1 Euro=155 KPW
From March 2004		358.50		

Source: Status of salary tables for UNFPA (years 2002, 2003, 2004 and 2005) and UNDP (2003 and 2004) locally recruited personnel;

44. In a letter dated 21 May 2004, the Government of DPRK requested the UNICEF office to pay salaries of national professional officers in Euro in the amount of €375 per month. Until that date, UNICEF was paying for local staff in US dollars and the level of salary for national professional officers was US$375. The Board noted that UNICEF switched to Euros but did not increase the level of salaries, since national professional officers' salaries are currently €358 per month.

Meal allowances

45. The Board was informed that UNDP, UNFPA and UNICEF pay local personnel a monthly "meal allowance"[6] directly (i.e. not through the Government of DPRK). The "meal allowance" amounts to €100 per month per person. The Board is not aware of any enabling policy for these allowances.

---

[5] Cf. UNDP Resident Representative Note for the file dated 26 April 2004

[6] Cf. Letter from FDRC (Government), dated 9 March 2001; Minutes of the meeting of the Operations Chiefs of the three UN offices of WFP, UNDP and UNICEF in Pyongyang, on 6 April 2001; Minutes of UN Country Team meeting on 13 April 2006 obtained from the intranet.

Duration of contract and separation procedures

46. Duration of contracts varied between UN organizations and the staff seconded from the DPRK authorities. The UNDP Personnel Manual provides that government-seconded officials be appointed on a fixed-term basis of two years.

47. The Board noted instances when seconded personnel were recalled by the Government within two years. For example, a former national programme officer at UNFPA was recalled in June 2006 with a five day notice period after nine months in office. A letter dated June 2006 from the UNFPA China office to the Government of DPRK mentioned the various trainings that the staff member had been provided with and that the sudden replacement would compromise the capacity of UNFPA to deliver tangible results on its programmes in DPRK.

48. UNICEF had an exchange of letters with the Government of DPRK, dated 31 July 2001, confirming the Government's agreement to its request for the provision of national staff for a period of at least two years, with thirty days advance notice of proposed reassignments or separations. Contrary to this agreement, several staff were recalled before completion of their two years of assignment, as shown in Table 4 below:

Table 4
UNICEF local personnel – breach of expected term

Position	Date of entry	End of service	Duration of stay
Water and Environmental Sanitation Programme (WES), National Professional	15 Nov, 2004	6 Jan, 2006	13 months
Health, National Professional	17 Aug, 2004	30 Apr, 2005	8 months
Health, National Professional	2 May, 2005	2 Sep, 2005	4 months
Health, National Professional	18 Jul, 2005	31 Mar, 2007	20 months
Nutrition, National professional	1 Mar, 2005	30 Sep, 2006	19 months
National Secretary	18 Jul, 2005	22 May, 2006	10 months
Driver	22 Nov, 2004	3 Sep, 2005	9 months
Driver	22 Nov, 2004	9 May, 2005	5 months
Truck Drivers	3 Jan, 2003	15 Oct, 2004	20 months
	15 Oct, 2004	31 Dec, 2005	14 months
	1 5 Jan, 2006	1 Jul, 2006	5 months
	1 Jul, 2006	5 Feb, 2007	7 months

Source: UNICEF

49. The UNICEF 2006 DPRK country office report states that " ... *there has also been a high rotation of national seconded staff: 3 out of 5 staffs in operations, 4 out of 5 in programme and 3 ancillary staffs. This high rotation of national staff required significant work for the international team, as the newly seconded officers who are not technical need to be trained in everything: understanding UNICEF programme and procedures and working with ProMS*".

50. The Board's main conclusions in respect of local staff are:

(a) All local staff hired by UNDP, UNFPA and UNICEF were seconded from the Government of DPRK;
(b) Agreements entered into between UNDP and the Government of DPRK (Standard Basic Agreement) and UNICEF and the Government of DPRK (Standard Basic Assistance Agreement) did not fully address local staff hiring issues;
(c) Local staff hiring practices adopted by UNDP were not supported by an agreement with the Government of DPRK;
(d) Staff seconded from the Government of DPRK did not consistently adhere to the duration agreed upon with the Government (UNICEF) and/or stipulated by the UN agency HR Manual (UNDP);
(e) Local staff salaries were paid to the Government of DPRK, and not to the local staff directly;
(f) Payments to the government in respect of seconded staff have been made in convertible Won and Euros and previously in US dollars;
(g) Clearance was provided by UNDP Headquarters personnel to make payroll payments in Euros;
(h) Increases were made to the rate of pay for local staff for which the Board was not provided with the basis; and
(i) Local staff have been recipients of regular 'meal allowance', for which no enabling policy was supplied to the Board.

4.2 Foreign currency transactions

51. This area of work focused on whether the entities made payments to local staff and suppliers in foreign currency, and whether such payments were in accordance with the entities' rules.

52. The Board found that payments were made by all entities at different times in foreign currency, as well as convertible and non-convertible local currency[7]. The Board sets out below the detailed findings.

[7] For chronological record of developments regarding payments to local staff and suppliers in foreign currency refer to Annex V.

Bank accounts maintained

53. The bank accounts operated by UNDP locally in DPRK are set out in Table 5:

Table 5
UNDP, UNFPA, UNOPS

00136	Foreign Trade Bank	DPRK	1001	KPW	UNDP Representative in DPRK (non-convertible)
00136	Foreign Trade Bank	DPRK	1002	KPW	UNDP Representative in DPRK (convertible)
00136	Foreign Trade Bank	DPRK	1003	EUR	UNDP Representative in DPRK

Source: UNDP (adapted)

54. UNDP processes payments for its own operations and on behalf of UNFPA and UNOPS. Payments are further processed by UNDP on behalf of other UN entities.

55. UNDP processes payments from all three bank accounts for operations in DPRK. The accounts were generally used as follows:

(a) The non-convertible Won bank account was used for the receipt of Government Local Office Contributions (GLOC) from the Government. Payments made from this account relate mainly to rental and utility costs and were paid directly to the General Bureau for Diplomats (a department within the Government which provides the country office with administrative support).

(b) The convertible Won bank account was funded from the Euro account. Payments from this account included, *inter alia*, travel costs, salaries to local staff and sundry office costs. Payments made from this account could also be converted into cash Euros at the bank in DPRK.

(c) The Euro account was funded from UNDP headquarters. Payments from this account included, *inter alia*, salaries, DSA, allowances, rental, consultant costs, sundry office costs and directly attributable project costs.

56. The local bank accounts operated by UNICEF were as follows:

Table 6 - Series of Bank Accounts for UNICEF DPRK
As of 26 April 2007

Bank reference	Bank Name Account Number	Currency	Current balance	Current status
160-02	ING-NEAB DPRK A/C#05127	USD	0	Closed
955-01	Cash on Hand – DPRK	KPW	0	Open – technical problem to close (Inactive)
955-02	Cash on Hand – DPRK	USD	0	Closed (Inactive)
955-03	Cash on Hand – DPRK	Euro	0	Closed since 15/06/2004
163-02	Foreign Trade Bank A/C # 08831402	USD	0	Closed
163-01	Foreign Trade Bank A/C# 08831401	KPW	655,844.47	Open
163-04	Foreign Trade Bank A/C #08831412	Euro	58,964.38	Open

Source: UNICEF (adapted)

57. The Board's work in respect of foreign currency transactions focused on:

(a) Banking arrangements;
(b) Procedures for disbursements; and
(c) Bank balance levels.

Banking arrangements

58. The UNDP manual on locally recruited staff in Chapter 111, Section 10300, indicates that "*Salaries and allowances of personnel recruited shall be paid in the currency of the duty station*" and "*Requests for payment or partial payment in convertible currency or access to purchases in hard currency may be approved exceptionally by the Headquarters Local Salary Steering Committee on a country-by-country basis.*" The Board noted that the UNDP country office paid salaries and allowances for local staff from either the Euro account or the convertible Won account contrary to the above-mentioned instruction, although UNDP contended that such personnel were not UN employees.

59. The UNDP special treasury instruction on currency exchange rates issued in June 1992 includes the rule that: "*To the extent possible, all local expenditure of a field office must be paid in non-convertible local currency* and *Requests for payment or partial payment in convertible currency or access to purchases in hard currency may be approved exceptionally by the Headquarters Local Salary Steering Committee on a country-by-country basis.*". The UNDP Finance Manual was updated in 2000 and does not any more contain this guidance. The Board noted that the rentals which should have been paid out of the non-convertible Won bank account, were paid from the Euro account and no evidence of approval by the Headquarters Steering Committee thereof was supplied.

60. UNDP's Standard Basic Agreement with the Government of DPRK in Article V, provides that "*Moneys payable to the UNDP ... shall be paid to the account designated for this purpose by the Secretary-General of the United Nations and shall be administered in accordance with the applicable Financial Regulations of the UNDP.*" The Board noted that contrary to Article 6 of the Standard Basic Agreement, UNDP made local payments in foreign currencies.

61. Annex VI has been prepared by UNDP summarising the different types of payments made. The annex highlights that UNDP paid local staff costs, local allowances and other local costs in Euros and convertible Won.

62. The current Resident Representative (RR) in UNDP recently indicated to the Board that when he assumed his assignment in Pyongyang in July 2005, the payment of various costs in foreign currency was an established practice. He indicated that in his understanding the advantage for government counterparts was that if they got a cheque in Euro, they were more certain that they actually received Euro directly to their account. If they get a convertible Won cheque, they have to convert the Won into Euro in the Foreign Trade Bank which may take some time and they were not sure that they will always receive the Euro. He added that another consideration may be the lack of confidence in the Won. Especially after the economic adjustments in 2002, he understood that inflation was high, so foreign currency would have been more secure. This was his assumption as to why the government counterparts preferred Euro payments. The RR

indicated that international staff in DPRK do not have bank accounts and to his knowledge, neither did national staff. Accordingly, international staff were paid part of their salary in Euro cash directly by the country office, in order to pay their living expenses.

63. UNICEF Financial Regulations and Rules with respect to currency transactions are as follows:

> *Regulation 11.2: The Executive Director in accordance with the aims and objectives of UNICEF, shall take the required actions to make full and effective use of all currencies available to UNICEF.*
>
> *Rule 111.12: The Comptroller may establish procedures for the acquisition and utilisation of currencies held by UNICEF.*

64. The Board was not made aware of any specific currency rules for payments of local staff salaries at UNICEF.

Procedures for disbursements

65. Based on the detailed transaction schedules supplied for UNDP (including transactions conducted for UNFPA and UNOPS)[8], the Board made some preliminary observations which are reflected below. The information supplied was not verified, and no source documents were examined for this phase of the audit.

Payments made from Euro and Convertible Won account

66. A review of the payments from the account indicated that, in certain instances overtime and meal allowances were paid directly to a local staff member who would cash the cheque and distribute the cash to local personnel. As the supporting documents for

---

[8] The Board was supplied with detailed transaction schedules by UNDP headquarters treasury for the following categories.

(a) Total disbursements from the Euro account;
(b) Total disbursements from the KPW convertible account;
(c) Total disbursements from the KPW non-convertible account;
(d) Total disbursements made from UNDP accounts on behalf of other agencies for the period 2004-2006 (2002 to 2003 not supplied);
(e) Total transaction payments to the following Government departments;
- General Bureau for Diplomats
- Ministry of Foreign Affairs
- Ministry of Foreign Trade

(f) Total transactions to vendors identified as 'National Staff';
(g) Sample of transactions from the Euro account for 2002-2003 indicating that payments were made in foreign currency for local salary and allowances, rental costs, utility costs and other sundry office expenses (pre-Atlas);
(h) Sample of transactions from the Euro account for 2004-2006 indicating that payments were made in foreign currency for local salary and allowances, rental costs, utility costs and other sundry office expenses.

these payments were not kept in the headquarters in New York, the Board was not able to verify any controls exercised over these payments.

Payments made to vendor 'National Staff' from the Euro account

67. A review of the payment schedules supplied from Atlas (ERP system of UNDP, UNFPA and UNOPS) indicated payments to a vendor 'National Staff' without identifying the name of the staff. These payments primarily related to meal allowances and overtime. It could not be determined to whom the actual payment was made without reference to supporting documents. The Board also noted a number of instances where there was no description of what the payment relates to on the Atlas system and it was merely marked as 'N/A' (not applicable).

Manual payments – ultimate beneficiaries

68. All payments made from the Euro, convertible Won, and non-convertible Won accounts for the period 2002-2006 have been recorded as manual cheque payments. No cheques were held in New York, therefore, in this phase, the Board did not have access to the paid cheques. The Board was thus unable to determine whether the cheques were made out in the name of the vendor or for cash and therefore unable to determine what actual cash payments may have been made to local suppliers or staff.

Payments to local suppliers

69. A review of the payments (as extracted from the Atlas system) made from the Euro account and the KPW convertible Won account, indicated that payments were made to vendors which were reflected as being local suppliers. This is contrary to the UNDP special treasury instruction of June 1992, which directs that non-convertible local currency be used for all local expenditure.

Rentals

70. UNICEF indicated that it did not pay any rent for the office space it occupies. At UNDP, the monthly rentals with effect from 1 January 2007 with the Government of DPRK was KPW 507,345 (US $3,590.12), and previously KPW 468,100 (US $3,312.41). The Board noted that UNDP paid local rentals in foreign currency.

Bank balance levels

71. A review was performed of the bank balances of the three UNDP accounts. The Board noted while non-convertible Won balances were maintained, disbursements for local costs were still being made out of the Euro and convertible Won accounts.

Counterfeit currency

72. In the course of the audit, UNDP staff alleged that the UNDP DPRK country office had in its possession $3,500 of counterfeit United States currency. UNDP indicated to the Board that "*...in agreement with the US authorities, the suspected counterfeit dollars were handed over to the US authorities on 20 March 2007 in New York. ...*" The Board did not investigate this matter further as it does not form part of the Board's mandate.

73. The Board's main conclusions in respect of foreign currency transactions are:

(a) UNDP made some payments to local suppliers and local staff (including allowances) in foreign currency contrary to the Standard Basic Agreement and as detailed in paras. 58 and 59;
(b) No formal authorisation was provided to exempt the UNDP country office from compliance with the relevant instructions (paras. 58, 59 and 60); and
(c) The Regulations and Rules were not sufficiently comprehensive in dealing with DPRK country office payments in local and foreign currencies.

4.3 Access to projects

74. The Board found that for activities for all entities, project access to UN personnel only occurred in a coordinated way with the authorization and supervision of DPRK authorities.

75. In the interest of expediting assistance with travel arrangements, the Board requested for a *note verbale* (referred to in the letter in Annex 4 from the Chairman of the AOC). This *note verbale* was issued by the Chef de Cabinet of the Executive Office of the Secretary-General on 12 March 2007. In an e-mail dated 11 April 2007, the Board was informed that on 20 March 2007, the Deputy Permanent Representative of DPRK advised him that his government was not going to extend any cooperation to UNDP's audit.

Standard Basic Assistance Agreement (UNDP)

76. The Agreement provides for access to project sites as described in the following pertinent sections:

a. Under Section 2, Article IV (Information concerning projects), it states that *"The UNDP undertakes that the Government shall be kept currently informed of the progress of its assistance activities under this Agreement. Either Party shall have the right, at any time, to observe the progress of operations on UNDP-assisted projects."*

b. In Section 3, *"The Government shall, subsequent to the completion of a UNDP-assisted project, make available to the UNDP at its request information as to benefits derived from and activities undertaken to further the purposes of that project, including information necessary or appropriate to its evaluation or to evaluation of UNDP assistance, and shall consult with and permit observation by the UNDP for this purpose."*

c. Under Section 1, Article X (Facilities for execution of UNDP assistance), it also states that *" ... it shall, in particular, grant them (UNDP, its Executing Agencies, their experts and other services performing services on their behalf) the following rights and facilities:*

c) access to site of work and all necessary rights of way ...."

77. UNOPS projects were wholly UNDP funded projects whereby UNOPS acts as the implementing agency for UNDP. UNOPS implements projects based on a signed project document and budget revisions received from the UNDP country office.

Standard Basic Cooperation Agreement (UNICEF)

78. This Agreement likewise presents specific provisions allowing project site visits as follows:

a. Under Item 3, Article III (Programmes of Co-operation and Master Plan of Operations), it states that *"The Government shall permit UNICEF officials, experts on mission and persons performing services for UNICEF to observe and monitor all phases and aspects of the programmes of co-operation."*

b. Under Item 1, Article XVI (Access Facilities), it further states that *"UNICEF officials, experts on mission and persons performing services for UNICEF shall be entitled to:*

a) To prompt clearance and issuance, free of charge, of visas, licenses or permits, where required;

b) To unimpeded access to or from the country, and within the country, to all sites of co-operation activities, to the extent necessary for the implementation of programmes of co-operation."

Background-project activity

79. One of the three focus areas of this phase of audit is whether the agencies had adequate access to the projects they funded, as this condition is entrenched in the entity's agreements with the host countries and is a critical control and monitoring consideration.

Programme Expenditures

80. Programme assistance covered all expenditures related to projects. These expenditures include travel, procurement of supplies, materials and equipment, monitoring activities, payment of salaries, and other expenses that are directly charged to the programme/projects. Table 7 shows the details of programme expenditures for each of the four entities for 2002 to 2006. UNOPS' expenditure is reflected on its own, but is also included with UNDP expenditure, as UNOPS implemented projects wholly on behalf of UNDP.

Table 7
Programme Expenditures (in US Dollars)

Agency	2002	2003	2004	2005	2006	Total
UNDP *	1,888,187	2,333,196	1,164,000	3,272,000	4,568,000	13,225,383
UNFPA	448,752	670,078	974,360	973,499	1,012,335	4,079,024
UNICEF	8,263,039	7,457,680	18,087,227	12,683,671	8,731,810	55,223,427
Total	10,559,978	10,460,954	20,225,587	16,929,170	14,312,145	72,527,834
UNOPS	731,019	261,610	(271,254)	1,341,663	2,266,597	4,329,635

Source: Agency supplied reports
** UNDP recorded programme expenditures include those that UNOPS incurred on its behalf.*

81. Table 8 details the number of projects at the four UN entities for the years 2002 to 2006. The project statistics for UNDP also include the projects reflected for UNOPS which is its implementing partner.

Table 8
Number of active projects per entity

Agency	2002	2003	2004	2005	2006
UNDPand UNOPS	31	41	28	33	39
UNFPA	2	3	4	3	2
UNICEF	9	9	9	9	10
Total	**42**	**53**	**41**	**45**	**51**

Source: Agency supplied data

82. Further classification of the project modalities for UNDP is shown in Table 9 below:

Table 9
Type of UNDP Projects

Type	2002	2003	2004	2005	2006
National Execution Project (NEX)	15	23	15	17	13
Direct Execution Project (DEX)	3	4	4	6	13
Other Agencies	13	14	9	10	13
Total	**31**	**41**	**28**	**33**	**39**

Source: Summary of UNDP's Programme Expenditure by Disbursing Source (For Table Nos. 8 and 9, insofar as UNDP is concerned)

83. The projects focused on the following key areas:

(a) Economic management focusing on economic growth, foreign trade and investment increase and generating resources for social and economic development;
(b) Improved sustainable energy sources;
(c) Improved environmental management and contributing to sustainable use of environmental resources;
(d) Increased food availability at the household and national levels; and
(e) Improved basic social services focusing on public health, child and maternal health and nutrition, education, water and sanitation.

84. For UNDP, UNFPA, and UNOPS, most of the projects were implemented directly by the entity. UNICEF, oversees all its own programs using implementing partners.

85. Individual listings of projects as provided by UNDP, UNFPA and UNOPS are shown in Annex VII. UNICEF provided the Board ProMS listing of programmes, as shown in Annex VIII.

Procedures for project access

86. Through enquiry, the Board was advised by the entities that the procedure for project visits was to request clearance or authorization from the government through the Ministry of Foreign Affairs. Requests were made either in writing or orally. The Ministry of Foreign Affairs then coordinated such request with the concerned ministry (Ministry of Foreign Trade, Ministry of Land, Environment Liaison Office, other offices) involved in the implementation of the project. It usually took a week to process the request. Once the request for project visit was granted, an officer from the concerned Ministry and a translator from the country office accompanied the visiting team to the

project site. The Board was supplied with documents or reports (on a sample basis) which provided indications that access to projects was indeed given to entity personnel.

87. Based on the information gathered from the four entities, there were no written code of conduct between these entities and the government which indicated possible restrictions in terms of access to projects. As described above and based on interviews, the Board was informed that access to projects could only be conducted under the supervision and with the approval and escort of the representatives of the Government of DPRK.

88. The Board noted that the control over the project access exercised by the DPRK authorities, was not in line with Article X of the Standard Basic Agreement entered into between UNDP and the Government of DPRK which provided that *"the Government shall, in particular, grant them the following rights and facilities: ... (c) access to the site of work and all necessary rights of way; (d) free movement within or to or from the country, to the extent necessary for proper execution of UNDP assistance ... ."*

Nature and frequency of project visits

89. Monitoring and evaluation of the implementation of projects is a critical control. For each entity, the Board sets out below the documents, explanations and evidence supporting the contention that monitoring/evaluation and access to projects did take place. However, the Board did not verify during this phase, the validity of payments and accuracy of the reports and explanations furnished as well as any comments contained in the reports on the project planning and implementation.

90. The Board noted that in the audit undertaken by OAPR KPMG of the UNDP office in May 1999, one of the findings was that in three out of five projects selected, there were no field visit reports from 1994 – 1998 (Project No. DRK/92/011/A/01/99), from 1996 – 1998 for Project No. DRK/95/001/B/01/99; and from 1997 – 1998 (Project No. DRK/97/001/A/01/99). This was not in adherence to the requirement of at least one project visit per year (in respect to all ongoing projects) and to document the visit on relevance, performance, progress and early signs of successes and difficulties.

91. For UNDP projects, monitoring and/or evaluation visits as applicable were undertaken *inter alia*, by the country office representative, programme managers, Regional Bureau, study tour groups or national and international consultants. Reports submitted in support of the project site visits and monitoring and evaluation work included:

(a) Interim progress reports;
(b) Assessment/mission reports;
(c) Field visit reports;
(d) Final reports on projects;
(e) Annual project review report; and
(f) Evaluation and project preparation mission.

92. For UNFPA projects, site visits by the Country Director in Beijing were done usually at least once in two months, the UNFPA country office at least once a month, and at times by the Technical Support Team (Country Support Team) in Bangkok[9]. There were also instances of evaluation visits done by national and international consultants. Among the reports submitted to cover these visits included the following:

(a) Evaluation report of UNFPA's annual bridging programmes in DPRK for 2004-2006;
(b) Field monitoring visit reports;
(c) Field office trip reports; and
(d) Mission reports on working visit to DPRK.

93. As per the project list supplied by UNOPS, all projects were visited in 2002, 2004, 2005 and 2006 and no visits occurred in 2003. These visits were undertaken by UNOPS Portfolio Managers and international consultants for supervision and monitoring of project activities. The Back to Office reports were with the UNDP Country Office, and were not reviewed by the Board.

94. In its 2006 DPRK country office annual report, UNICEF mentioned that, *"Restrictions on access to certain provinces and counties continued. UN staff need to obtain prior clearances from the government before undertaking field trips even to provinces and counties where we have access. Sometimes these are denied without assigning any reason. Combined with the barriers on communicating directly with communities and children these restrictions seriously handicap our ability to monitor the situation of women and children and the impact of our interventions on the ground."* Elsewhere in the same report, UNICEF stated that, *"Limited joint field visits with counterparts and limited access to families and caregivers does not allow for feedback from the end-users of the services and strategies implemented. This also leads to lack of opportunities to be in contact directly with the community to conduct operational research such as focus group discussion techniques."*

95. Despite these restrictions, project visits have been carried out on accessible projects as indicated in the total number of days these staff spent in the field per year from 2002 to 2006, based on Travel Authorisations (TA's): 2002 - 337 days (71 TAs); 2003 – 283 days (117 TAs); 2004 – 404 days (134 TAs); 2005 – 428 days (222 TAs); and 2006 – 271 days (179 TAs). Below is a list of evaluations/studies/assessments submitted by the country office to the UNICEF HQ Evaluation Office:

(a) DPRK Nutrition Assessment 2002/002;
(b) Analysing the Causes of Child Stunting in DPRK 2003/001;
(c) Increasing Water Supply and Sanitation Coverage in Hyesan City, Ryanggang Province 2003/003;

---

[9] Based on interview with Branch Manager, South and West Asia branch, Asian and the Pacific Division, UNFPA. He was a former Programme Officer, UNFPA Regional Office, China who had conducted several project site visits in DPRK.

(d) Assessment of water supply and sanitation in Bukchong County 2004/002;
(e) Assessment of water supply and sanitation in Rinsan County 2004/003; and
(f) Assessment of water supply and sanitation in Unryul County 2004/004.

Field visits conducted by internal audit

96. During the year 2002 to 2006, there was no indication that field visits were undertaken by internal auditors of all entities, although, areas in programme management were part of the audit scope.

97. The Board's main conclusion in respect of project visits are:

(a) Separate basic agreements existed between UNDP, UNICEF and the Government of DPRK to provide for access to project sites;
(b) Project visits by UN personnel or their representatives took place only after arrangements were made through the Ministry of Foreign Affairs;
(c) Monitoring and control visits were undertaken by personnel of all entities, resulting in the production of various site/project reports; and
(d) Some UNICEF project visit requests were not approved by the DPRK authorities.

5. Review of internal audit reports

98. The Board performed a review of the internal audit reports issued at UNDP, UNFPA and UNICEF. No reports were issued for UNOPS. A summary of the findings as applicable to the areas noted above and the status of implementation as provided by management of the entities have been included in Annex IX.

99. The implementation reports furnished by management indicated that for all three entities, some findings remained under implementation or unimplemented. As previously reported by the Board, (A/61/5/Add.1, para. 431) in its long-form report for UNDP for the biennium 2004-2005, the Board was concerned about the low implementation rate of internal audit recommendations. UNICEF advised the Board two of the 15 recommendations issued by the Office of Internal Audit were not implemented as at 15 May 2007.

6. Conclusion

100. The Board has in this report dealt with the three focus areas contained in its scope, and provided findings and conclusions. Accordingly, in respect of the current scope, the Board has not suggested any further procedures for it to perform.

101. The findings contained in this report will be considered for inclusion in the Board's long-form report to the General Assembly in the current biennium. The Board also takes this opportunity to highlight that in its previous reports it raised related observations in respect of *inter alia* human resources management, cash management, procurement and project management.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
(Lead Auditor)

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

31 May 2007

2

LIMITED SCOPE AUDIT

O A P R

UNDP OFFICE

IN

Democratic People's Republic of Korea (DPRK)

Report No. RCMXXXX
Issue Date: did <Month> 2004

Regional Audit Services Centre - Malaysia

Permanent Subcommittee on Investigations
EXHIBIT #1b

Table of Contents

I. Executive Summary 3

II. Introduction 6

III. Operational Overview 7

IV. Detailed Assessment 12

1. Country Level Programme 12
2. Management 14
3. Knowledge-sharing and Implementation of Practices 20
4. Partnerships and Resource Mobilisation 21
5. Support to UN Coordination 23
6. Advocacy Services 24
7. Development Services 25
8. Human Resources Administration 31
9. Procurement, Inventory and Office Premises 34
10. Financial Resources 36
11. General Administration 40
12. IT and Communications 43

V. Summary of Recommendations 44

VI. Annexes 50

I. Executive Summary

Objectives and Scope

A limited scope audit of the UNDP Office in Democratic People's Republic of Korea (DPRK) was conducted in the field between 2 and 13 August 2004. Due to the absence of a programme specialist on the audit team and due to time constraints, the scope of the performance audit was reduced and limited to an assessment of the following areas:

- Management of People
- Development Services
- HR Administration
- Procurement
- Financial Resources

In OAPR's opinion, the overall performance of the UNDP Office in DPRK was **partially satisfactory** over the period 1 January to 31 December 2003.

Overall Opinion

Overall, the Office's operations are satisfactorily managed over the period of January to December 2003 in the areas of Finance, Procurement and Human Resources Administration.

The overall rating of **partially satisfactory** is based on the overriding concern over the long term sustainability of the Office in terms of office capacity.

The long term sustainability of the Office is critical given the need to increase capacity in terms of both international and national staff for satisfactory project delivery. However, this is constrained by the limited status of extra-budgetary resources as at the end of 2004 (sufficient for only 10 months operations) and lack of capacity and continuity of Government seconded national staff who are not competitively selected by the Office.

In an effort to increase capacity, the Office has addressed the issue using inappropriate and short term solutions such as use of TRAC and project resources to fund staff performing Office functions:

- The Office has requested RBAP approval to use TRAC funds to recruit three international and two national staff to effectively implement the proposed Global Fund for AIDS, Tuberculosis and Malaria (GFATM). The request is only for one year and there is no funding plan in place for these staff beyond the first year. This approach of funding Office capacity from TRAC is inappropriate as TRAC funds are not being used for development projects, but instead are being used for administrative support costs. Bearing in mind donors apparent concern on funds not being used for humanitarian and development interventions, in OAPR's opinion, expenditure incurred under this Project Unit would not conform to the purposes for which TRAC funds have been appropriated. Additionally, this will result in inaccurate financial reporting of donor funds as project delivery figures will be inflated and administrative support costs understated, giving misleading information that delivery has increased with no apparent increase in authorised posts or staffing costs. This short term solution is also not sustainable for a programme that is medium/long term in nature as the GMS earned from administering the fund in the first year is insufficient to cover the costs of the additional staff, beyond the first year.

- One international UNV, one national Programme Officer and one national Programme Assistant are performing both Office and project functions, but are being funded entirely from two projects, and not from the office administrative budget.

Key Office positions have been filled using contracts of limited duration, or are Government seconded staff who do not hold UNDP contracts:

- The Operations Manager post which is a core and critical function for the continued activities and long-term sustainability of the Office, has been held by staff on short term contract modalities such as SSA and ALD funded from extra-budgetary resources. This is not compatible with the long-term nature of the functions of Operations Manager and due to the limited status of extra-budgetary resources, this critical post cannot be funded in the long run; and

- All national staff are seconded from the Government and are not recruited with UNDP contracts. The Office has no control over recruitment of staff as the Government only provides one candidate for each post and does not provide detailed qualifications, work experience or personal details to the Office. The staff are recalled from UNDP at the entire discretion of the Government.

In OAPR's opinion, RBAP assistance is urgently needed in terms of a long-term strategy and action plan to increase the capacity of the DPRK Office.

The other areas that require the Office's attention are:

a) Monitoring project outputs/objectives by consistent implementation of annual progress reports, especially for projects of significant value;

b) Strengthening the transfer and monitoring process of project non-expendable inventory to the Government via evaluation by the Office's Contracts, Assets & Procurement (CAP) committee, ensuring inventory lists are complete and certified by the Office/executing agency and ensuring that project equipment is received by authorised Government personnel; and

c) Implementing the recovery of support services provided by the Office to NEX/DEX projects.

Acknowledgement

The audit team wishes to extend its thanks and appreciation to the Country Director and the staff of the UNDP Office in DPRK for their availability and co-operation during the course of the audit.

Ratings Summary

Category		N/A	D	PS	S
1. Country level programme					
1.1. CCA and UNDAF	Not Assessed				
1.2. SRF and CCF/Country Programme	Not Assessed				
1.3. ROAR verification	Not Assessed				
1.4. Outcome monitoring and evaluations	Not Assessed				
2. Management					
2.1. Planning and monitoring	Not Assessed				
2.2. People	Deficient				
3. Knowledge-sharing and implementation of practices					
4. Partnerships and resource mobilisation					
4.1. Partnerships within the development community	Not Assessed				
4.2. Resource mobilisation	Not Assessed				
4.3. Government relations	Not Assessed				
5. Support to UN coordination					
5.1. Resident coordinator role	Not Assessed				
5.2. Common services provided by the office	Not Assessed				
6. Advocacy services					
7. Development services					
7.1. Project design, appraisal and approval	Partially Satisfactory				
7.2. Project monitoring	Partially Satisfactory				
7.3. NEX/NGO audit process	Satisfactory				
7.4. Country office support to project implementation	Partially Satisfactory				
7.5. Management of non-core contributions	Satisfactory				
8. HR administration					
8.1. Office staff	Satisfactory				
8.2. Project/other staff	Satisfactory				
8.3. Consultants and temporary assistance	Satisfactory				
9. Procurement, inventory and office premises					
10. Financial resources					
10.1. Commitments, disbursements and receipts	Satisfactory				
10.2. Banking operations and cash management	Satisfactory				
10.3. Monitoring financial resources	Satisfactory				
11. General administration					
11.1. Vehicles	Not Assessed				
11.2. Travel, shipping and hospitality	Not Assessed				
11.3. Security	Not Assessed				
11.4. Registry/records	Not Assessed				
11.5. Housing (where applicable)	Not Assessed				
12. IT and communications					

Note: N/A = Not Assessed, D = Deficient, PS = Partially Satisfactory, S = Satisfactory

II. Introduction

Objectives

The audit was conducted according to the audit approach to CO audits which objectives are summarised as follows:

1. To provide senior management with a holistic assessment of CO performance that identifies significant constraints, if any, preventing COs from achieving fully satisfactory performance.
2. To provide Office management with feedback, both positive and negative, on the Office's performance and potential for improvement taking into account lessons from experience within the Office as well as from elsewhere.
3. To strengthen accountability for good and poor performance by documenting findings and reporting results for follow-up by senior managers.
4. To verify results reported by COs, such as those contained in the ROAR and MRF, which will enable bureaux to better target their monitoring and support activities, and glean lessons for improving performance across all COs.
5. To assess CO compliance with Executive Board decisions, UNDP Financial Rules and Regulations and UN Staff Rules and Regulations in order to protect the accountability of the Administrator to the Executive Board and the Secretary-General and report instances of non-compliance for information and consideration of performance measures.

Scope and Approach

The audit was conducted in accordance with the document - *OAPR Guide to Assessing and Improving CO Performance*, which is available on OAPR's Intranet site.

Period of Audit Mission

The audit covered the period of 1 January to 31 December 2003 and was conducted in the field between 2 and 13 August 2004.

Audit Team

The audit team included two OAPR staff and one auditor on loan from the international audit firm Ernst & Young in Malaysia:

- [redacted] OAPR/RASC-Malaysia
- [redacted] - OAPR/RASC-Malaysia
- [redacted] - Ernst & Young, Malaysia

The audit team did not include a programme specialist, which would have permitted coverage of programme areas.

Office Management

[redacted] = Redacted by the Permanent Subcommittee on Investigations

The Office's management team is comprised of:

- [redacted], RR/RC from August 2002 to July 2004;
- [redacted], Country Director since December 2001; and
- [redacted], Operations Manager since July 2003.

III. Operational Overview

Operating Environment

DPRK is a country in a special development situation. The population of DPRK has suffered from food shortages and a decline in general health and welfare standards due to changes in external circumstances, i.e. loss of traditional partnerships with socialist countries since the late 1980's, and a series of severe natural disasters throughout the second part of the 1990's. The country has also suffered from imposition of economic, diplomatic and other sanctions. The extent of the countries difficulties is indicated by a 50% drop in gross domestic product between 1992 and 1998 to just over $10 billion.[1]

Economic constraints and natural calamities have led to a rapid erosion in the quality of economic infrastructure. The energy sector has been severely disrupted, partly due to the flooding of coalmines and partly due to a lack of fuel supplies. This has led to a severe disruption of agricultural and industrial production. Although having recovered since 1997, agricultural production is around half what it was in the 1980s. The reduced capacity of the country to obtain commercial imports has led to a sharp decline in the availability of food, and to a great deal of food insecurity.[2]

DPRK receives extensive humanitarian support from a variety of bilateral and multilateral donors. Humanitarian assistance is largely in the form of food aid through the World Food Programme (WFP), which averaged over $200 m annually over the last four years. The amount of food aid was estimated at approximately $2 billion between 1995 and 2003. WFP and FAO estimates suggest that the country has a food deficit of 1 m tonnes of grain per year.[3]

The re-emergence of the nuclear issue in October 2002 has resulted in deterioration in the relations between DPRK, Republic of Korea, Japan and the United States. This has resulted in continued reluctance of some donors to provide humanitarian assistance. Most donors are reluctant to support rehabilitation and development activities until the nuclear issue has been resolved. The negative impact of the nuclear issue was compounded by the Severe Acute Respiratory Syndrome (SARS) epidemic in 2003, due to DPRK's proximity to China.[4]

UN Strategy

The first CCA for DPRK was finalised in March 2003 and was a collaborative product of the UNCT, Government, resident NGOs, non-resident agencies and other development partners. The joint UNCT/Government Steering Committee was co-chaired by the RC and the Secretary General of the National Coordinating Committee. Seven Joint Thematic Groups were established identifying the following priority areas:

a) Food Security
b) Health & Nutrition
c) Water, Environment & Sanitation
d) Education
e) Gender
f) Development Cooperation
g) Energy & Environment

[1] Second CCF (2001-2004)
[2] 2003 CCA
[3] Country Programme (2005-2006)
[4] Resident Coordinator Annual Report for 2003

The UNDAF is planned for 2004/2005. Several short term formulation missions on the UNDAF have been undertaken.

The following UN Agencies are represented in DPRK:

	As of 30 Apr. 04	Personnel
1	WFP	40
2	UNICEF	10
3	UNDP	5
4	WHO	3
5	UNFPA	1
6	FAO	1
7	OCHA	1
	Total [5]	**61**

IAEA had consultants in the country until late 2002. None of the UN Agencies share common premises with UNDP.

UNDP in DPRK

The CCF (2001-2004) identified three areas of concentration which were agriculture, energy and transport.

The draft country programme (CP) document (2005-2006) reflects the intention of the UNCT to harmonize programming periods and lay the foundation for a possible CCA and UNDAF. The funding of the CP amounts to $22 m, of which $16 m is regular resources and $6 m is from other resources (GFATM of $5 m and GEF of $1 m). As at July 2004, the CP has been submitted to the Executive Board Secretariat for approval in September 2004.

A critical role of the proposed two-year programme is to build the human capacities and knowledge base needed for adjustments in three areas:

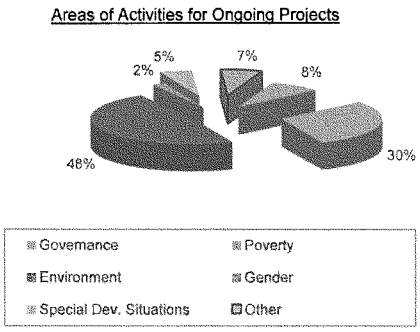
a) Rural sector and natural resource management;
b) Economic management; and
c) Social sector management

Due to the extensive humanitarian support and food aid, the former RR/RC was a WFP staff assuming the functions of WFP Representative and Humanitarian Coordinator.

Internet connectivity to the Office was only available to the Office in September 2003, with the VSAT installation.

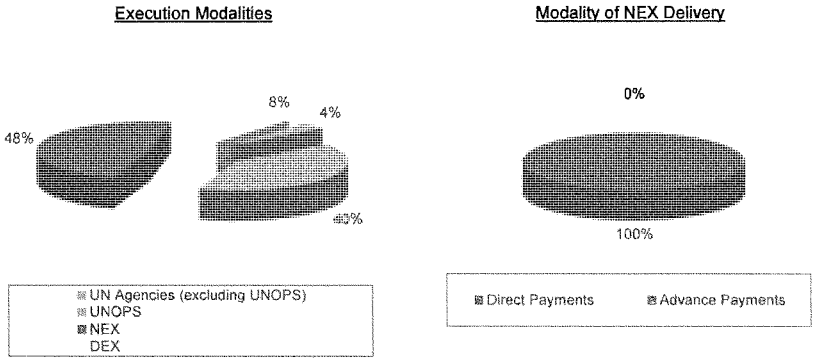
[5] UN Security Plan as of September 2003. Consists of international staff only, including UNVs.

Programme Resources



As at December 2003, there were 31 on-going projects with a total budget value of $12 m. The largest share of programming resources is to Environment (48%) and Poverty (30%). This is in line with the CCF (2001 to 2004) where focus is on environmentally sustainable development towards reducing poverty and improving the well being and security of the poor.

NEX and Government Counterparts



Out of the total budget value of on-going projects of $12 m, 48% is NEX, 40% is executed by UNOPS, 8% is DEX and the remaining 4% by other agencies. The Office is providing 100% support services to NEX projects in terms of direct payments.

The Office's main Government counterparts are the Ministry of Foreign Affairs and the General Bureau for Cooperation with International Organisations, Ministry of Foreign Trade.

Performance Indicators

Level of Programme Responsibilities

	RBAP Average	UNDP DPRK
Number of ongoing projects	49	31
Number of programme personnel	38	6
Number of Projects per programme personnel	1.3	5
Annual Project Expenditure per programme personnel ($000s)	344	314
Average budget value per ongoing project (in $000s)	1,342	390

The number of on-going projects in DPRK of 31 is significantly lower than the RBAP average of 49 projects. Due to the small number of programme staff, the Office handles a significantly higher number of projects per staff (5) compared to the RBAP average of 1.3. However, in spite of the higher number of projects, project expenditure per staff in DPRK of $314 k, is less than the regional average of $344 k.

Due to the lower number of projects and project expenditure in DPRK, the average budget value per on-going project of $390 k is significantly lower than the regional average (30% of the regional average of $1,342 k). Furthermore, 80% of project expenditure in 2003 relates to only 10 projects.

Local Office Costs

	RBAP Average	UNDP DPRK
Post adjustment index (for reference only)	25	38.6
Admin. Costs over Project Expenditure (excluding international staff)	8.7%	15.3%
Number of local personnel	33	22
Total Admin. Costs per Local Staff ($000s)	34	13

The ratio of annual office costs to annual project expenditure of 15% in DPRK is much higher than the RBAP average (9%). The main reason for this higher ratio is because of a decrease in project expenditure in 2003 of almost 50% compared to 2000 levels, whereas, office expenditure has more or less remained constant at approximately $289 k compared to 2000.

The number of local staff in DPRK (22) is much lower than the regional average (33). The office cost per local staff is low, at only $13 k per staff as compared to $34 k for the RBAP average. This is due to the fact that only 12 out of 22 local staff are funded from office administrative resources. (The other 10 staff are funded as follows - 7 from projects, 2 by the Government and 1 from the RC budget). Furthermore, local staff do not hold UNDP contracts and hence, the Office only bears the cost of the average monthly salary of $285 and meal allowance of $120 for the 12 staff. The Office pays no other benefits such as pension fund and MIP.

Support to the UN System

	RBAP Average	UNDP DPRK
Average monthly vouchers for UN agencies (number of vouchers)	556	74
Total average monthly vouchers (number of vouchers)	988	147
Admin. support to UN	56.3%	50.3%

Majority of administrative support services are for two resident UN Agencies (FAO and UNFPA) and also for UNOPS as an executing agency. The Office's level of administrative support to UN Agencies is slightly lower than the regional average, partly due to the fact that the two largest Agencies (WFP and UNICEF) have their own support staff.

Global Staff Survey

All national staff are seconded by the Government and do not hold UNDP contracts. National seconded staff have not been required to participate in the Global Staff Survey as this is a requirement only for 100, 200 and 300 series staff. As such, there have been no staff survey results for 2002 and 2003 as there were no such contract holders in UNDP DPRK, other than the Country Director who participated in the Survey.

IV. Detailed Assessment

1. Country Level Programme — Not Assessed

1.1. CCA and UNDAF — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.2. Strategic Results Framework and CCF/Country Programme — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.3. ROAR Verification — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.4. Outcome Monitoring and Evaluations — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

2. Management — Deficient

2.1. Planning and Monitoring — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

2.2. People — Deficient

Overview

Office Staffing

As at 31 December 2003, the Office staffing consists of two international staff, 22 national staff (three National Officers and 19 General Services staff) and one SSA.

The international staff consisted of the RR/RC and the Country Director. There are no Deputy posts in the Office as the two deputy posts of DRR-Programme and DRR-Operations were combined during the downsizing exercise in 2001. The post of DRR-Programme was upgraded into a Senior Deputy Resident Representative and subsequently converted to a Country Director post. This was because the former RR/RC was a WFP staff assuming the functions of WFP Representative and Humanitarian Coordinator. As he was predominantly involved with WFP management and humanitarian assistance, the management of UNDP programme and operations was solely handled by the Country Director.

The Operations Manager post was held by a staff on a short-term contract (SSA). This post was converted to a one year ALD contract in March 2004 with Headquarters approval. In 2003, there was no ARR-Programme. However, Headquarters has since approved this post. The post description has been finalized at Headquarters in July 2004 and the post is expected to be advertised shortly.

The national staff are seconded by the Government and are not recruited with UNDP contracts. National staff can be recalled anytime at the discretion of the Government. The staffs are funded as follows:

Funding	No. of Staff
DPVC	10
PROJECT	6
DPXB	2
GOVT (1)	2
GCCC (2)	1
RC	1
Total	**22**

(1) The staff's salary is fully paid by the Government.
(2) The staff is a driver who is funded from a Government Cash Counterpart Contribution (GCCC) paid by the Government in 2002. The GCCC is now reflected as a project in Atlas.

Out of the 22 staff, there are 12 Office staff, five drivers and five cleaners/gardeners. Seconded staff are recalled entirely at the discretion of the Government. Hence, the Office has no control over the hiring of staff and length of service of staff. As at August 2004, eight staff have more than five years service with UNDP, with the two longest serving staff having almost nine years service. The remaining 14 staff have less than five years of service. The gender distribution of national staff is 60% male and 40% female. Refer also to Section 8.1 – Office Staff.

Re-profiling Mission

A re-profiling mission was undertaken in mid 2002, to validate the proposals from the 2002 Key Results Strategy Paper for UNDP DPRK prepared by the Office in June 2002. A Re-profiling Action Plan was submitted by the team leader to the Office in January 2003. However, no formal report was issued as per the BoM website.

Alignment of Job Functions with Office Requirements

Job descriptions have been created for all posts and job functions aligned with Office requirements:

- Finance – currently there is a Finance Officer, assisted by the Registry/Finance Assistant. The Office is considering moving the PSU staff to Finance, to increase the capacity from two to three.
- Registry/Reception – currently, there are two staff performing this function independently. These two roles will be combined when the current Receptionist is withdrawn and a replacement given by the Government.

Vacancies

As per the Organigramme, the positions of two Chief Technical Advisor posts (funded from projects) and a Programme Assistant-RC Coordination (funded from the RC budget) are vacant. The status of the recruitment of these posts is as follows:

- Chief Technical Advisor (Agriculture Rehabilitation and Environment Protection) & Chief Technical Advisor (Enhanced Capacity Development) – recruitment of these positions is on-going as there is difficulty in attracting qualified candidates on a long term basis due to living/working conditions in the country, and situations where selected candidates have not been given visa approval by the Government.

- Programme Assistant for RC Coordination – UNDGO has verbally indicated the possibility that a UNV position could be funded from the RC budget. The Office will include this post in the 2005 RC budget.

Learning Plan

The Operations Manager has been made the Learning Manager since July 2003. A Learning Plan was developed based on a training needs assessment of each staff. Scheduling of training however, is constrained by the requirement of the Government for all staff leaving the country for training to be accompanied by another staff of the same gender. This constraint of sending two staff at a time (for training that may not be relevant to the accompanying staff) also reduces the funds available for training.

Global Staff Survey

As all national staff are seconded from the Government and do not hold UNDP contracts, they have not been required to participate in the Global Staff Survey as this is a requirement only for 100, 200 and 300 series staff. As such, there have been no results for the staff survey of 2002 and 2003. The Country Director is the only such contract holder and has participated in the Survey.

RCA

The RCA process has not been implemented by the Office as the reaction from the Government in the past was negative. In the absence of the RCA, a training needs assessment was done for each staff and incorporated in the Learning Plan.

Corporate Issues

Use of ALD to Hire Operations Manager

Since 2002, there has been a lack of continuity in the post of Operations Manager as the position has been filled by staff on short-term contracts as follows:

Position	Staff	Period	Contract Type	Duration
DRR-O	Neil Reece-Evans	2000-2001	Fixed Term	12 months
Operations Manager	Jaginder Kanwar	Mar 01 to Aug 01	SSA	5 months
	Yolanda Dubois	Jan 02 to Jul 02	UNV	7 months
	Naomi Scott	Jul 02 to May 03	SSA	11 months
	Sara Adams	Jul 03 to present	SSA & ALD	13 months

In March 2004, the Office requested and obtained approval from Headquarters for the post to be converted to a one year ALD-4 contract modality which will result in the post being continuously filled by the same staff for approximately two years, from July 2003 to March 2005. The Office was able to fund the ALD post from extra budgetary resources for one year with the assistance of WFP, as 30% or $45 k of the cost for the year was shared with WFP in line with the Inter-Agency Mobility Programme which allows staff from UN Agencies to switch from one agency to another (the current Operations Manager is a WFP staff on special leave without pay). This arrangement gives rise to the following concerns:

a) The Operations Manager position is a core and critical function for the continued activities and long term sustainability of the Office. Short-term contract modalities such as SSA and ALDs are not compatible with the long-term nature of the functions of Operations Manager; and

b) Taking into account projected income and expenditure in 2004, the estimated status of DPXB as at end 2004 is sufficient for only another 10 months of operations. Hence, the

Office is unlikely to be able to fund this post from extra budgetary resources on a long term basis, beyond the expiry of the current Operations Manager's contract in March 2005.

In OAPR's opinion, the critical position of an Operations Manager cannot be nationalized given that all national staff are seconded from the Government and hence, the selection process is not competitive or based on relevant qualifications for the post. Furthermore, the length of service of national staff is not fixed as staff can be recalled at the discretion of the Government. (Refer to Areas Requiring Action – Selection Process of Office Staff). Consequently, the post of an international Operations Manager is necessary for the continuity of the Office and funding to this effect needs to be secured by RBAP.

Good Practices

None.

Areas Requiring Action

TRAC Funds Used for Administrative Support to Projects

UNDP DPRK has been designated as a Principal Recipient of the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), as required by the GFATM Board for countries where special conditions have been imposed. The Grant Agreement has yet to be signed. As at August 2004, the Office is preparing for the audit/evaluation by the Grant Fund auditors, as required by the Grant Agreement. As per the Country Programme (2005-2006), total funds of $5.5 m are expected from GFATM.

The Office does not have the capacity to implement the Grant. To increase capacity, the Office is proposing to recruit three international staff and two national staff to be funded from TRAC. (The Office has submitted a project document to RBAP for approval to set-up a Technical Assistance Project Unit for these administrative support services to be funded from TRAC amounting to $240k. The Project Unit is initially for one year and the Office has confirmed that it will subsequently ask for extension for another year).

In OAPR's opinion, using TRAC resources to fund additional Office capacity is not appropriate.

TRAC funds are specifically for development projects and not for funding administrative support costs. Bearing in mind donors apparent concern on funds not being used for humanitarian and development interventions, in OAPR's opinion, expenditure incurred under this Project Unit would not conform to the purposes for which TRAC funds have been appropriated.

Additionally, this approach of using TRAC funds results in inaccurate financial reporting of donor funds. Administrative support costs will be reported as project expenditure, i.e. project delivery figures will be inflated, whilst support costs figures will be understated. This inaccurate reporting would be misleading to donors, giving the wrong impression that delivery has increased while there has been no apparent increase in the authorized posts or staffing costs of the Office.

Furthermore, this approach is a short-term solution to a structural issue of a medium/long-term nature. The use of TRAC in the first year of the project is not sustainable to deliver the GFATM project, as the estimated GMS earned by the Office from administering the funds in the first year is $71 k (2.67% of the estimated amount to be mobilized in the first year i.e $3 m), which will be insufficient to cover the cost of these staff beyond the first year of the project.

Recommendation 1

The Office should not enter into the Grant Agreement if it is unable to secure long term funding to increase office capacity that would permit to satisfactorily deliver the requirements of the Programme. The Office should:

a) Prepare a feasibility study of the resources needed to fund the additional office capacity to deliver the GFATM programme in the long run; and
b) Seek advice/support from RBAP on options available (other than TRAC) to secure funding as per the feasibility study, for the entire life cycle of the programme and not just for the first year.

Staff Performing Office Functions Funded from Projects

As at December 2003, there are three international UNVs and seven national staff charged to projects. Out of these ten staff, three staff consisting of an international UNV Procurement Specialist, one national Programme Officer and one national Programme Assistant are performing both office and project functions, but are being charged entirely to two projects (12256-AREP and 12273-GIS/RS), instead of the Office Administrative Budget. The staff have been funded from projects due to the limited extra-budgetary resources available (as at end 2004, the status of extra budgetary resources is sufficient for only 10 months of operations).

To address the issue of limited extra-budgetary resources, the Office has previously explored the possibility of funding existing office posts through the following avenues:

- Expanded UNV Programme, incorporating a national UNV component in collaboration with UNV Bonn, to secure fully-funded UNVs by donors.
- Recruitment of a JPO (Programme Development & Evaluation Officer).

However, the Office lacked a senior programme staff (ARR–Programme level) to supervise an expanded UNV Unit (a prerequisite for fully funded UNVs) and the JPO post.

Recommendation 2

The Office should:

a) Seek advice/support from RBAP on alternative options to increase extra-budgetary resources to fund these project staff performing office functions, until such time that the Office is able to generate it's own extra-budgetary resources;

b) Ensure that staff performing Office functions are charged to a management project (extra budgetary resources) in Atlas instead of a development project; and that the costs of support services provided by these staff to projects is recovered in accordance with the Policy of Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.

c) Revisit its efforts to recruit JPOs and fully funded UNVs to expand the existing capacity, especially once the ARR-Programme post is filled and there is additional supervisory capacity in place.

Selection Process of Office Staff

The Office does not control the hiring of national staff and the length of their service of such staff. All national staff are seconded from the Government and are not recruited by UNDP. The Government only provides one candidate for each post and does not provide detailed qualifications, work experience or personal details to the Office. As such, there is no basis for the Office to align qualifications of staff with post descriptions. Additionally, seconded staff can be recalled at anytime at the discretion of the Government.

In 1998, the UNCT initiated discussions with the Government to introduce competitive recruitment of staff under UNDP contracts, to reduce turnover of seconded national staff and to build institutional memory and capacity. However, the reaction from the Government was negative. In mid 2004, the Office has initiated action with the Government to allow UNDP to interview staff who are to be seconded and to determine their level of proficiency in English. The Government has reluctantly allowed this, however, efforts by the Office to reject unsuitable staff have not been successful.

Recommendation 3

In line with current efforts to improve the selection process of Government seconded staff, the Office in collaboration with the UNCT, should initiate discussions with the Government to competitively recruit staff under UNDP contracts

Implementation of RCA process

The RCA process as a management tool for performance evaluation and vacancy management has not been implemented by the Office, as in the past, the reaction by the Government to this proposal was negative.

Recommendation 4

The Office should ensure that the 2004 RCA process is carried out in 2005 by the Operations Manager for operations posts, and the Country Director for programme posts, in line with current efforts to improve the selection process of Government seconded staff.

Other Issues

None.

3. Knowledge-sharing and Implementation of PracticesNot Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4. Partnerships and Resource Mobilisation — Not Assessed

4.1. Partnerships within the Development Community — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4.2. Resource Mobilisation — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4.3. Government Relations — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

5. Support to UN Coordination — Not Assessed

5.1. Resident Coordinator Role — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

5.2. Common Services provide by the Office — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

6. Advocacy Services Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

7. Development Services — Partially Satisfactory

7.1. Project Design, Appraisal and Approval — Partially Satisfactory

Overview

There were a total of 11 projects approved in the year 2003 totaling $3m with nine projects reviewed by the local Programme Appraisal Committee (LPAC) in 2003 and two in 2002.

A review of four projects totaling $2.2m indicated that the logical framework linking the inputs, activities, outputs and outcomes of the SRF were prepared and supported by detailed budget of the inputs.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Broader Participation Required in the LPAC

In the year 2003, the Office LPAC functions can be further strengthened to be more effective in the project appraisal process. In the review of four ($2.2m) out of eleven projects that were approved in the year 2003, it was noted that:

- The LPAC consists mainly of UNDP personnel with the exception of one instance where there is participation by a FAO representative (for project DRK/03/008 - Propagation of Grass-feeding Animals)
- Two projects, DRK/03/004 - Enhanced capacity for GIS/RS- Phase II and DRK/03/002 - Strengthening IT & EMC in DPRK, have no documented inputs from partners independent of the project preparation process such as the UN agencies, donors, technical specialist or civil societies. Inputs from RBAP were of an informal nature and were not documented
- The final project document for DRK/03/002 - Strengthening IT & EMC approved on 6 January 2003 was not reviewed by LPAC. The LPAC had reviewed an initial draft project document six months prior.

As of 1 January 2004, project approval is no longer carried out at the Office level. All project approvals are being done at the HQs level (refer to Executive Board decision ref: DP/2004/14 dated 9 March 2004), so as to strengthen monitoring of the projects and to ensure that the resources allocated are used for humanitarian and development interventions.

Recommendation 5

The Office should ensure that the composition of the LPAC includes representatives or development partners who are independent of the immediate project preparation process such as UN Agencies, donors, technical specialists, civil societies to appraise the quality of project design. When the approval authority resumes at the Office level, all project documents should be reviewed by the LPAC prior to final approval by the Country Director.

Other Issues

None.

7.2 Project Monitoring — Partially Satisfactory

Overview

As at 31 December 2003, the Office has a total of 31 ongoing projects representing a total budget value of $12 m. The total expenditure for these ongoing projects in the year 2003 totalled $2 m of which 81% were incurred by ten projects. For the remaining 21 projects, 15 projects are due for completion in the year 2004 and six in the years 2005 and 2006.

The majority of the above on-going projects are executed by the Government (NEX) and by UNOPS, which represents 48% and 40%, respectively, of the total on-going project budget. There are no advances for the NEX projects and the Office undertakes procurement of goods and services on behalf of the NEX projects (refer to section 9 – Procurement). DEX projects represent 8% of the total on-going project budget and other UN agencies execution for the remaining 4%.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

DRK/97/001 – Inadequate Monitoring on Project Equipment Transfer to Government

In OAPR's opinion, proper monitoring of project equipment by the Office in the DPRK is crucial so as to be in line with the Executive Board's request (ref: DP/2004/14 dated 9 March 2004) for UNDP to ensure that resources could not be utilised for purposes not envisaged under the projects.

In the review of eight ongoing projects, it was noted that for project, DRK/97/001/01/99 - Environment and Industrial Pollution (NEX), the total disbursements for non-expendable equipment since the start of the project in 1997 was $660 k. Items procured for this project are transferred to the government on an annual basis.

A review of the documentation on the transfer of project equipment available in the Office indicates the following:

- The transfer of $299 k of non-expendable equipment for the year 2002 and 2003 was authorised by the Programme Officer, without the review of the CAP and approval of the Country Director; and
- There was no documentation available in the Office to support the transfer of $169 k (disbursed in the years 1997 and 1998) of non-expendable equipment.

Recommendation 6

The Office should ensure that disposal/transfer of project equipment to the government for items of asset value above $1,500 per item is properly reviewed by the CAP and approved by the Country Director. All documentation should be maintained on file.

Non-submission of Project Inventory List and Incomplete Inventory List Submitted

In the review of eight on-going projects, the following was noted:

- DRK/99/001 (AREP Support Project executed by UNOPS) - There is no project inventory list available in the Office. A total of $238 k was disbursed for non-expendable equipment.

- DRK/00/G35 (Biodiversity at Mount Myohyang executed by UNOPS) - A total of $178 k was disbursed by the project for non-expendable equipment, however, the project inventory list certified by the government reflects only $2 k of the project equipment. In the absence of the Programme Officer in charge of the project, the Office is unable to explain the difference of $176 k.

Recommendation 7

The Office should ensure that the executing agency (UNOPS) submits on an annual basis at minimum, a certified and complete project inventory list.

List of Equipment Procured

A list of equipment procured for the projects from 2001 to 2003 was submitted to HQs in 2003. The list was requested because the donor countries wanted to be informed of the manner in which their funds were utilized. This list detailed the equipment purchased by projects, the projects' objectives, purpose of the equipment, their cost etc. However, this list has yet to be updated subsequent to its preparation.

Recommendation 8

The Office should ensure that project personnel update the equipment list to facilitate the monitoring of equipment purchased, i.e. to conduct physical stock check and site visits, to ensure that programme resources are utilized for their intended purpose and the donor funds are being utilized appropriately and accounted for. The practice would also reduce the time required to update ad hoc reports requested by the donors.

Annual Progress Reports (APRs)

The annual progress report for the following two projects that represent 20% of the total project delivery for the year 2003 were not prepared by the Office:

- DRK/02/002/01/34 - Capacity Building for Development Cooperation (DEX), total project expenditure for 2003 of $281 k; and
- DRK/02/003/01/99 - Sweet Potato Cultivation and Processing (NEX), total project expenditure for 2003 of $172 k

The 2003 APR for project DRK/97/001/01/99 - Environment and Industrial Pollution (NEX) that was prepared by the General Bureau for Cooperation with International Organisation (GBCIO) does not provide details on the project progress towards project outputs/objectives.

Recommendation 9

The Office should ensure that Annual Progress Reports are prepared by the executing agency. The APR should report on the results in achieving the project objectives and should include statements on the progress towards the project outputs/objectives.

Unexplained Over-Expenditure Totaling $75k for Project DRK/02/004

Project DRK/02/004 - Cottage Industry PWTGC-Phase II is executed by UNIFEM and funded from TRAC ($86 k), SPPD ($75 k) and SDC ($60 k). The total project expenditure for the project as at 31 December 2003 totals $295 k against a total project budget of $220 k resulting in an over-expenditure of $75 k. Upon Office follow-up in March 2004, UNIFEM responded indicating that the over-expenditure will be further looked into. The last Office follow-up with UNIFEM was on 25 May 2004. Some two months after the last exchange of e-mails, the matter is still pending.

Recommendation 10

The Office need to further follow-up with UNIFEM to obtain clarifications on the over-expenditures totaling $75 k for project DRK/02/004 – Cottage Industry PWTGC-PhaseII.

Other Issues

None.

7.3. NEX/NGO audit process — Satisfactory

Overview

In December 2003, the Office submitted its NEX audit plan covering six projects with project expenditures totalling $752 k for the year 2003. All the NEX audit reports were submitted to OAPR close to the deadline of 30 April 2004.

As per prior years, the NEX audits were carried out by the national audit authority, Audit Group of the Ministry of Finance, in April 2004. The scope of the audit included a review of the project progress, assessment of the project internal control system and certification of the project CDR.

The OAPR NEX Evaluation Letter of July 2004 covering the NEX audit exercise for the year 2004 (2003 expenditure) rated the NEX audit exercise as satisfactory with a rating of 5 (on a scale of 1 to 5, 5 being fully satisfactory). In addition, the Office action plan for 2003 NEX audit results (covering expenditure for 2002) was evaluated satisfactory.

As at the time of the audit, the action plan to address the issues highlighted in the 2004 NEX audit reports (2003 expenditure) was still outstanding and the Office had indicated that the action plan would be prepared and submitted by the deadline of 15 September 2004.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

7.4. Country Office Support to Project Implementation — Partially Satisfactory

Overview

A total of $12 k in support services was recovered from UN agencies (FAO, UNFPA, UNOPS, ESCAP, WHO and UNESCO) and $9 k was recovered for GMS.

However, in the year 2003, there was no recovery for support services rendered for project implementation.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Recovery of Implementation Support Services

Based on estimates of support services provided to NEX/DEX projects in 2003, the approximate costs that could have been recovered by the Office for support services provided in the areas of Finance, Human Resources and Procurement are as follows:

Area	Level of Support Provided	Approximate Cost *
Finance	378 vouchers processed in 2003 for Government @ $8	3,024
Human Resources	9 SSA contracts issued in 2003 for projects @ $6.40	57
Procurement	10 purchase orders issued in 2003 for projects @ $45.80	458
	Total	3,539

** Based on established rates in the Universal Price List effective January 2003 for DPRK (low cost category)*

Recommendation 11

The Office should ensure that costs of rendering support services to NEX/DEX projects is fully recovered on the basis of the Universal Price List as per Policy on Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.

Other Issues

None.

7.5. Management of Non-Core Contributions — Satisfactory

Overview

As at July 2004, there are nine trust fund and cost sharing agreements totaling $2m signed by the Office with donors contributing to projects that were on-going as at 31 December 2003.

A review of four cost sharing and trust fund agreements totaling $1.3m indicated that:

- A 3% COA for the administration of these funds (now called GMS) is built into the agreements;
- The terms and conditions of the agreements are consistent with UNDP practices; and
- The agreements were duly signed by authorised officials.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

8. Human Resources Administration — Satisfactory

8.1. Office Staff — Satisfactory

Overview

The Operations Manager is responsible for Human Resources administration.

As at December 2003, there was a total of 22 local office staff. There are eleven staff in Programme and an equal number in Operations. There are 19 General Services staff and three National Officers. All three National Officers are in the Programme Section. The Office staff are funded as follows:

Funding	No. of Staff
DPVC	10
PROJECT	6
DPXB	2
GOVT (1)	2
GCCC (2)	1
RC	1
Total	**22**

(1) The staff's salary is fully paid by the Government.
(2) The staff is a driver who is funded from a Government Cash Counterpart Contribution (GCCC) paid by the Government in 2002. The GCCC is now reflected as a project in Atlas.

All national staff are seconded from the Government and are not recruited with UNDP contracts. Staff are seconded from three Government bodies, i.e. the Ministry of Foreign Trade, the Ministry of Foreign Affairs and the General Bureau for Affairs with Diplomatic Missions. Seconded staff are assigned and can be recalled entirely at the discretion of the Government. Hence, the Office has no control over the hiring of staff and the length of their service. As at August 2004, eight staff have more than five years service with UNDP, with the two longest serving staff having almost nine years service. The remaining 14 staff have less than five years service.

There is no UN salary scale in DPRK. The cost of the monthly national staff salaries is paid directly to the respective Government bodies based on the Government salary scale. In 2003, the Government had two salary increases in July 2003 and October 2003, amounting to a total increase of 30%, which was agreed by the RR/RC on behalf of all UN Agencies and international NGOs. The salary per month for local staff are as follows - $310 for office staff, $273 for drivers/gardeners and $210 for cleaners. The average monthly salary for the 22 staff is approximately $285 per staff.

Staff are also entitled to meal allowances of Euro100 per month ($120 per month), which are paid directly to the staff, and not to the Government. Their annual leave entitlement is 14 days.

No APP has been formed given that local staff are not recruited or promoted by the Office.

Refer also to Section 2.2 – Management of People.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

8.2. Project / Other Staff — Satisfactory

Overview

As at December 2003, there were three international UNV project staff hired by the Office consisting of a Forestry Specialist, a Procurement Specialist and a Finance Specialist. In 2003, there was also an UNV IT Specialist hired by the project for a six-month period in 2003 (excludes local project staff seconded by the Government and covered under Section 8.1 – Office Staff). Terms of Reference of positions were sent to UNV Bonn for identification of candidates. Potential candidates were short-listed and selected by the Office and Government. All UNVs are holding contracts issued by UNV Bonn and are paid the Volunteer Living Allowance.

In 2003, 25 SSAs were issued to 17 individuals. 17 contracts related to International Consultants and eight contracts were issued for Temporary Assistants. Nine SSAs related to projects, 12 contracts were for the office and four contracts were for staffing of the UN Dispensary.

The recruitment process for international consultants was transparent and the Office used Headquarters, SURF and other UN Agencies to source for candidates. Selection was based on the qualifications and experience of the consultants.

Due to Government restrictions, no national staff can be recruited directly by the Office. Recruitment for temporary assistance positions are from qualified persons already located in DPRK, i.e. family members of the international community (UN Agencies, Embassies and NGOs). In 2001, the UNCT established a Local SSA Salary Scale, which was updated in 2004 based on the requisite qualifications and job functions. The scale is denominated in Euros and will be reviewed annually by the UNCT.

In 2003, no SCs or ALDs were issued during the year to project staff, international consultants or temporary assistance.

Refer also to Section 2.2 – Management of People.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Documentation and Contract Management

From a review of nine out of 17 contracts issued for consultants, the recruitment process was transparent. Even though the documentation to support the transparency of the recruitment process and awarding of contracts was available in the project files, the documentation was not complete in the Human Resources files maintained by the Operations Manager.

Recommendation 12

The Office should ensure that a snapshot of the recruitment process and employment history of the staff hired, are available in the Human Resources files. At a minimum, the Operations Manager in collaboration with the project staff should ensure that the following documentation of personnel records is available, before issuance of contracts:

a) Correspondence/summary of the method of sourcing of candidates, the number of CVs obtained, the evaluation criteria for short-listing of candidates and the basis for selecting the successful candidate;
b) A detailed Terms of Reference stating the required skills, qualifications, output and timeframes for delivery;
c) The CVs of selected candidates to facilitate an independent check of the qualifications of staff with the agreed remuneration; and
d) Documentation of reasons for waiver of competitive process, where required expertise is limited or where there are justifiable reasons to recruit a particular candidate.

Other Issues

None.

8.3. Consultants and Temporary Assistance — Satisfactory

Overview

Refer to Section 8.2 – Project/Other Staff.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

9. Procurement, Inventory and Office Premises Satisfactory

Overview

Procurement

The majority of procurement carried out by the Office is for Project procurement. In 2003, 11 Purchase Orders (POs) amounting to $96 k were raised for the Office and 13 POs amounting to $210 k were raised for Projects. UNDP entered into seven contracts amounting to $132 k in 2003. The Office did not procure on behalf of any Agencies in 2003. The demographics of 2003 procurement are detailed below:

Purchases	No of POs
$ 1 to $9,999	13
$ 10,000 to $ 19,999	9
$ 20,000 and 99,999	1
$ 100,000 and above	1

The breakdown of the POs by their execution modality is detailed in the table below:

Execution Modality / Body	Amount	Percentage
UNDP	$96 k	31%
NEX	$180 k	59%
DEX	$15 k	5%
UNOPS	$15 k	5%
Total	$306 k	100%

The CAP met six times in 2003 and the total value of procurement evaluated by the Committee amounted to $240 k. Purchases above $30 k were reviewed by CAP and those above $100 k were sent to ACP/NY for review. Even though CAP is only required to look into procurement above $30 k, there were instances where the Committee had reviewed certain procurement below $30 k to enhance their transparency and accountability, particularly for technical procurement.

The CAP has three members from Programme and a member from Operations. The chairperson of the CAP informed that when necessary, technical experts and representation from the Agencies have been invited to participate in the CAP.

We have reviewed seven POs and three contracts for 2003, which encompassed 71% and 46% of the total value of POs and contracts respectively. From our review, the procurement process is satisfactory.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Use of IAPSO in Procurement

It is not the Office's practice to include the prices for goods such as vehicles, computers etc. from IAPSO in its competitive selection. This is due to the non-availability of internet access prior to September 2003 and based on experience, the prices of goods and delivery time, if they were to be purchased from IAPSO, were not as competitive and efficient as buying from Beijing. However, since the availability of internet access, the Office has made one purchase from IAPSO.

Recommendation 13

The Office should refer to IAPSO for purchases of goods such as vehicles, computers, etc. for competitive comparison of prices. Obtaining a price quotation from IAPSO will meet the requirement for international solicitation, which is appropriate for all contracts exceeding $100 k. IAPSO also provides benchmark prices to compare with local prices before making any final procurement decision.

Other Issues

The performance of suppliers are reviewed informally when their bids are being evaluated and from the quality of goods and services received. No formal procedure is in place for the evaluation and blacklisting of suppliers that have consistently supplied goods of inferior quality and have not met delivery deadlines, etc.

The Office should establish a formal system for evaluating supplier performance to enhance its existing controls over the monitoring and evaluation of suppliers' performance. Performance measures should include amongst others, the quality of goods received, delivery time, customer service and accuracy of invoices issued. The results of the evaluation should be shared with suppliers so that goals can be set and underperformance improved.

10. Financial Resources Satisfactory

10.1. Commitments, Disbursements and Receipts Satisfactory

Overview

In 2003, the Finance unit consisted of a Finance Officer who reported directly to the Operations Manager. In 2004, the Registry Assistant's job functions have been changed to be the Finance Assistant. Her role is to assist the Finance Officer in daily financial matters. In 2003, the unit processed 1,751 vouchers, which translates to an average of 5 vouchers processed per day. Out of the 1,751 vouchers processed, 28% were related to UNDP, 50% to UN Agencies and 22% to Government executed projects.

The controls in place for both the disbursement and receipt processes are satisfactory.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Receiving Records

Goods procured which are delivered to the project site, are received either by the Government for subsequent distribution to the various affected locations or by the appropriate Programme Officers before distributing to the Government. The relevant Programme Officers are required to be at the location where the receiving takes place and prepare a receiving report. Normally, the Government will acknowledge receipt in various forms such as by issuing formal acknowledgement on their official letterhead with official stamps, issuance of Goods Receipt Notes or signing on the Delivery Note, etc. These receiving documents from the Government are the key evidence that the goods procured have been satisfactorily received. Therefore it is important to ascertain that these acknowledgements are given by an authorized Government personnel.

Two Cash Disbursement Vouchers (CDVs) for procurement amounting to $40 k from the 23 samples reviewed were not supported by documented acknowledgement of receipt by the Government when the CDVs were submitted for approval. Their details are as follows:

Date	CDV No	Description	Amount
5 January 2003	8030100030	Computer Equipment	$25,124
28 February 2003	8030200039	Potato Processing & Packing Equipment	$15,092

Additionally, where receiving records are available, it is not possible to verify the signatures/official stamps of the Government recipients as no authorised specimen signature list has been provided by the Government.

Without these receiving documents, the approvers are not able to determine if the goods/services procured have been satisfactorily received and in accordance to specification when approving these disbursements.

Recommendation 14

The Finance Officer should ensure that:

a) Documented acknowledgement of receipt from the Government is consistently attached to all Vouchers for processing of payment; and

b) The documented acknowledgement of receipt from the Government is verified against the authorised specimen signature list/official stamp list provided by the Government (which has been requested by the Office at the time of the audit).

Other Issues

None.

10.2. Banking Operations and Cash Management — Satisfactory

Overview

[redacted] = Redacted by the Permanent Subcommittee on Investigations

The Office maintains the following bank accounts:

Account Type	Name / Location	Account No
Zero Balance Account (USD)	UBS AG, Geneva	[redacted]
Korean Won Convertible	Foreign Trade Bank of DPRK, Pyongyang	008825101
Korean Won Non-Convertible	Foreign Trade Bank of DPRK, Pyongyang	076250
Euro	Foreign Trade Bank of DPRK, Pyongyang	08825112

No new bank account was opened or closed in 2003. The Euro account was the most active bank account in 2003. It is used for most of the Office's disbursements with the exception of communications fee, salaries, Koryo Airline tickets which are paid through the Korean Won Convertible Account. Rental, maintenance and electricity are paid through the Korean Won Non-Convertible GLOC Account. The UBS account is used for disbursement, which requires electronic transfer such as procurement, salaries of international personnel, foreign consultants etc.

In 2003, the Office had an imprest level of $165 k. The imprest level was increased to $250 k since 1st March 2004 based on the average amount replenished by Treasury in 2003. Cash balances are being monitored daily and cash is replenished based on expected cash requirements. Cash management is satisfactory. Cashbook balances were higher in December 2003 as a precautionary measure due to Atlas roll out in January 2004.

Bank reconciliations in 2003 were satisfactorily done. The designated safe custodian has been informed of her responsibilities in writing.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

10.3. Monitoring Financial Resources Satisfactory

Overview

Programme Financial Resources

For the year 2003, no advances were given for NEX projects. Request for payments are not initiated from FIM, payments are done directly through WinFOAS.

For the year 2004, the authorized spending limit (ASL) for the Office is $2 m. As at July 2004, the total project expenditure totaled $1 m, i.e. 50% of the ASL. A total of $1.7 m was classified as hard pipeline and a review indicated that this classification was reasonable.

As at July 2004, the total amount that is receivable from donor amounted to $207 k and represented contribution due from NEAFF (Northeast Asian Forest Forum) for project DRK/01/A05 – AREP NEAFF Support to Forestry Rehabilitation. This receivable amount is not yet due for payment.

Office Administrative Resources

The projected DPXB reserve as at December 2004 is estimated at $128 k and is sufficient for 10 months operations based on the estimated DPXB expenditure for the year 2003.

For the year 2003, cost for services shared with UNFPA such as for the receptionist, registry, IT support are not recovered from UNFPA. In January 2004, the Office entered into an agreement for the recovery of common services from UNFPA. A review of the basis for recovery of costs related to common services indicated that it was satisfactory.

GLOC

As at May 2004, a total of $105k of GLOC is outstanding. The Office had numerous exchange of correspondence with the Government and had made sufficient follow-up on the payment of the amount receivable.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

From a sample review of on-going projects it was noted that the CDR for the year 2003 is uncertified for the DEX project – DRK/02/002/ - Capacity Building for Development Cooperation. The Office should ensure that the CDR is certified.

As at 31 December 2003, there were two ARL accounts with outstanding balances. The total balance of $9k in credit represents $2k in debit for Petrol ARL and $11k in credit for the UN Dispensary ARL. The Office explained that the credit balance in the UN Dispensary ARL pertains to surplus contributions for the UN Dispensary operations that will be refunded to the UN agencies.

11. General Administration — Not Assessed

11.1. Vehicles — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.2. Travel, Shipping and Hospitality — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.3. Security — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.4. Registry/Records — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.5. Housing — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

12. IT and Communications Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

V. Summary of Recommendations

No.	Recommendation	Management Comments
1	The Office should not enter into the Grant Agreement if it is unable to secure long term funding to increase office capacity that would permit to satisfactorily deliver the requirements of the Programme. The Office should: a) Prepare a feasibility study of the resources needed to fund the additional office capacity to deliver the GFATM programme in the long run; and b) Seek advice/support from RBAP on options available (other than TRAC) to secure funding as per the feasibility study, for the entire life cycle of the programme and not just for the first year.	

182

No.	Recommendation	Management Comments
2	The Office should: a) Seek advice/support from RBAP on alternative options to increase extra-budgetary resources to fund these project staff performing office functions, until such time that the Office is able to generate it's own extra-budgetary resources; b) Ensure that staff performing Office functions are charged to a management project (extra budgetary resources) in Atlas instead of a development project; and that the costs of support services provided by these staff to projects is recovered in accordance with the Policy of Cost Recovery from Regular and Other Resources issued by BoM effective January 2004; c) Revisit its efforts to recruit JPOs and fully funded UNVs to expand the existing capacity, especially once the ARR-Programme post is filled and there is additional supervisory capacity in place.	
3	In line with current efforts to improve the selection process of Government seconded staff, the Office in collaboration with the UNCT, should initiate discussions with the Government to competitively recruit staff under UNDP contracts	
4	The Office should ensure that the 2004 RCA process is carried out in 2005 by the Operations Manager for operations posts, and the Country Director for programme posts, in line with current efforts to improve the selection process of Government seconded staff.	

No.	Recommendation	Management Comments
5	The Office should ensure that the composition of the LPAC includes representatives or development partners who are independent of the immediate project preparation process such as UN Agencies, donors, technical specialists, civil societies to appraise the quality of project design. When the approval authority resumes at the Office level, all project documents should be reviewed by the LPAC prior to final approval by the Country Director.	
6	The Office should ensure that disposal/transfer of project equipment to the government for items of asset value above $1,500 per item is properly reviewed by the CAP and approved by the Country Director. All documentation should be maintained on file.	
7	The Office should ensure that the executing agency (UNOPS) submits on an annual basis at minimum, a certified and complete project inventory.	
8	The Office should ensure that project personnel update the equipment list to facilitate the monitoring of equipment purchased, i.e. to conduct physical stock check and site visits, to ensure that programme resources are utilized for their intended purpose and the donor funds are being utilized appropriately and accounted for. The practice would also reduce the time required to update ad hoc reports requested by the donors.	
9	The Office should ensure that Annual Progress Reports are prepared by the executing agency. The APR should report on the results in achieving the project objectives and should include statements on the progress towards the project outputs/objectives.	

No.	Recommendation	Management Comments
10	The Office need to further follow-up with UNIFEM to obtain clarifications on the over-expenditures totaling $75 k for project DRK/02/004 – Cottage Industry PWTGC-PhaseII.	
11	The Office should ensure that costs of rendering support services to NEX/DEX projects is fully recovered on the basis of the Universal Price List as per Policy on Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.	

No.	Recommendation	Management Comments
12	The Office should ensure that a snapshot of the recruitment process and employment history of the staff hired, are available in the Human Resources files. At a minimum, the Operations Manager in collaboration with the project staff should ensure that the following documentation of personnel records is available, before issuance of contracts: a) Correspondence/summary of the method of sourcing of candidates, the number of CVs obtained, the evaluation criteria for short-listing of candidates and the basis for selecting the successful candidate; b) A detailed Terms of Reference stating the required skills, qualifications, output and timeframes for delivery; c) The CVs of selected candidates to facilitate an independent check of the qualifications of staff with the agreed remuneration; and d) Documentation of reasons for waiver of competitive process, where required expertise is limited or where there are justifiable reasons to recruit a particular candidate.	
13	The Office should refer to IAPSO for purchases of goods such as vehicles, computers, etc. for competitive comparison of prices. Obtaining a price quotation from IAPSO will meet the requirement for international solicitation, which is appropriate for all contracts exceeding $100 k. IAPSO also provides benchmark prices to compare with local prices before making any final procurement decision.	

No.	Recommendation	Management Comments
14	The Finance Officer should ensure that: a) Documented acknowledgement of receipt from the Government is consistently attached to all Vouchers for processing of payment; and b) The documented acknowledgement of receipt from the Government is verified against the authorised specimen signature list/official stamp list provided by the Government (which has been requested by the Office at the time of the audit).	

VI. Annexes

ANNEX I ORGANISATION CHART

ANNEX II PERFORMANCE DATA

ANNEX III DEFINITIONS OF STANDARD AUDIT RATINGS

THIS PAGE REDACTED BY THE
PERMANENT SUBCOMMITTEE ON
INVESTIGATIONS

SEE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS EXHIBIT #4 (below)

Performance Data

Page

1. PROGRAMME

1.1 Programme Resources
1.2. Allocation of Programme Resources By Year
1.3. Programme Delivery/Expenditure
1.4. Allocation of Programme Resources By Theme
1.5. On-Going Projects
1.6. Execution of On-Going Projects
1.7. Modality of NEX Delivery
1.8. Audit of NEX Projects

2. OPERATIONS

2.1 Personnel Status
2.2. Office Costs
2.3. Volume of Vouchers
2.4. Volume of Purchase Orders
2.5. Local Contracts Committee
2.6. Inventory of Equipment and Assets

PROGRAMME

1.1. PROGRAMME RESOURCES

Programming Period From: 2001 To: 2004

	Amount in $000s
TRAC	10,658*
Cost Sharing	854
Other (SPR)	3,568
Total	**15,080**

* Includes carry-over of $2,823 k.

1.2. ALLOCATION OF PROGRAMME RESOURCES BY YEAR

	Amount in $000s			
	Year 2000	Year 2001	Year 2002	Year 2003
IPF / TRAC	3,045	1,613	1,661	1,490
Cost Sharing	876	448	115	87
Other (SPR)	954	884	1,872	478
Total	4,875	2,945	3,648	2,055

1.3. PROGRAMME DELIVERY/EXPENDITURE

	Amount in $000s		
	Year 2001	Year 2002	Year 2003
IPF / TRAC	666	686	1,587
Cost Sharing	328		89
Other (SPR)	564	1,149	582
Total	**1,558**	**1,835**	**2,258**

1.4. ALLOCATION OF PROGRAMME RESOURCES BY THEME

	Total Amount $000s	% of total
Governance	1,003	8%
Poverty	3,574	30%
Environment	5,849	48%
Gender	220	2%
Special Dev. Situations	657	5%
Other	802	7%
Total	**12,105**	**100%**

1.5. ON-GOING PROJECTS As OF 31/12/2003

Total Number	Total Value $000s	Average Size/ Project
31	12,105	390

1.6. EXECUTION OF ON-GOING PROJECTS As of 31/12/2003

	Total Amount $000s	% of total
UN Agencies (excluding UNOPS)	467	4%
UNOPS	4,877	40%
NEX	5,788	48%
NGOs	0	0%
DEX	972	8%
Other	0	0%
Total	12,105	100%

1.7. MODALITY OF NEX DELIVERY As of 31/12/2003

	Total Value $000s	Total Number of Vouchers
Direct Payments	668	210
Advance Payments	0	0
Total	**668**	**210**

1.8. AUDIT OF NEX PROJECTS As of 31/12/2003

	Total Number	Total Amount $000s
NEX projects due for national audit	5	604
NEX projects audited and audit report received	5	604
Compliance with audit requirement (%)	**100%**	**100%**

2. OPERATIONS

2.1. PERSONNEL STATUS

As of 31/12/2003

	Authorized. Posts			Staffed Posts		
	Program.	Admin. & Fin.	Total Personnel	Program.	Admin. & Fin.	Total Personnel
International Staff	1	0	1	2	0	2
JPOs	1	0	1	0	0	0
Local Staff						
National Officers	1	0	1	3	0	3
General Services	1	11	12	2	17	19
Sub-total Local Staff	2	11	13	5	17	22
TOTAL STAFF	**4**	**11**	**15**	**7**	**17**	**24**
ALDs	0	1	1	0	0	0
SSAs (average during the audit period)					1	1
Service Contracts	0	0	0	0	0	0
Total Personnel	**4**	**12**	**16**	**7**	**18**	**25**

Note 1: Of the 22 local staff, 7 are funded by projects and 2 are by the Government.

2.2. OFFICE COSTS

	Year 2002 $000s		Year 2003 $000s		Variance In %	
	Allotment	Exp. as of 31/12/02	Allotment	Exp. as of 31/12/03	Allotment Incr./(decr.)	Expendit. Incr./(decr.)
Core Budget (DPVC)						
Personnel-related (code A)	25	25	30	30	20	20
Other	235	129	259	178	10	38
Sub-total Core (DPVC)	260	154	289	208	11	35
Extra-Budgetary (DPXB)						
Personnel-related (code A)	6	6	7	6	17	0
Other	80	12	37	36	(54)	200
Sub-total (DPXB)	86	18	44	43	(49)	139
Other	82	46	98	38	20	(17)
Total	**428**	**218**	**431**	**289**	**1**	**33**

2.3. VOLUME OF VOUCHERS As of 31/12/2003
(monthly average over the past 12 months)

	Total Number	Total Amount $000s
UNDP	41	32
UN Agencies	74	82
Government	32	82
Total	**147**	**196**

2.4. VOLUME OF PURCHASE ORDERS In the 12 months from January 2003

	Total Number of Purchase Orders	Total Value of Purchase Orders $000s
Purchase Orders	25	306

2.5. LOCAL CONTRACTS COMMITTEE (LCC) In the 12 months from January 2003
(APPLIES TO PROCUREMENTS > US$30,000)

	Total Number of Meetings	Total Value Processed $000s
Activity in the last 12 months	6	240

2.6. INVENTORY OF EQUIPMENT AND ASSETS As of 31/12/2003

	Amount in $000s
Office Furniture & Equipment	8,802
Computer Equipment	171,461
Vehicles	106,484
Equipment in Custody	
Total	**286,749**

DEFINITIONS OF STANDARD AUDIT RATINGS

The following standard audit ratings have been defined so that management can place in context the opinions given in internal audit reports.

Definition of Performance:

Within the operational audit context, performance refers to the economy, efficiency, and effectiveness of operations under management's control. Operational audits assess the extent to which resources are acquired and utilized with due regard to economy and efficiency and whether management has put in place mechanisms to accurately monitor and assess whether programmes are meeting planned objectives. Operational audits do not report on the achievement of results.

Performance also refers to the manner is which activities are conducted – i.e. whether they are conducted in accordance with UNDP values. UNDP values encompass the notions of prudence and probity, as well as the necessity of taking acceptable risks.

Standard Rating	Definition
Satisfactory	In general, controls were in place to ensure that operations are economic, efficient, and effective; and that activities are conducted with due regard to UNDP values. Any weaknesses identified were not significant enough to compromise the overall performance and the control environment. The range of corrective actions required by management is moderate.
Partially Satisfactory	The majority of key controls were applied. However, some significant control weaknesses were identified. Timely corrective action by management is required to correct these weaknesses.
Deficient	Control weaknesses identified were widespread or were significant enough to have a negative impact on performance. Management needs to take immediate corrective action to improve the control environment.

United Nations Nations Unies

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

Ethics Office / Bureau de la déontologie

CONFIDENTIAL

TO: Mr. Kemal Dervis
A: Administrator, UNDP

DATE: 17 August 2007

FROM: Robert Benson
DE: Director, Ethics Office

SUBJECT: **Re. Our File 2007/129**
OBJET:

I wish to thank UNDP for submitting such a detailed and thorough submission regarding the protection from retaliation case for which I have been conducting a review.

While, from a purely legal perspective, the Ethics Office does not have the jurisdiction to address a request for protection from retaliation in relation to cases arising from UNDP, as Director of the Ethics Office, I undertook the review of this case based upon the following:

(i) I received what I considered to be sincere and deeply concerned representations from the President of UNDP's Staff Council, who are clearly interested in ensuring this matter be dealt with in the best interests of UNDP;
(ii) an absence of an applicable protection from retaliation policy within UNDP;
(iii) the direct and public intervention of one of the Executive Board members of the UNDP; and
(iv) accountability in this matter is ultimately to the General Assembly.

On this latter point, that is accountability to the General Assembly, I note that UNDP has itself acknowledged its accountability to the General Assembly through its Executive Board and ECOSOC.

One has to appreciate that in addressing a protection from retaliation case, three significant steps are involved. The first involves a preliminary determination whether a prima facie case of retaliation has been made out; if so, then, during the second phase, the burden shifts to the Organization to establish that the 'prima facie' retaliation was not as a consequence of the individual's participation in a protected activity. During this second phase, a thorough and detailed investigation of the facts of the case is undertaken. The information UNDP has raised in its submission would be considered during this phase, and it would be considered in the context of the UN's Charter and accountability to the General Assembly. During the final phase, if in fact it is found that there was a retaliatory act, appropriate measures would be recommended in order to address the issues that have arisen as a consequence of the original complaint.

In the present case, we discussed the possibility of UNDP, without ceding jurisdiction in future cases, allowing this case to proceed within the parameters of ST/SGB/2005/21. However, you

Permanent Subcommittee on Investigations
EXHIBIT #2a

have indicated that after discussing this matter further, and in light of ongoing inquiry being undertaken by the Board of Auditors, UNDP wishes to conduct its own external review.

When I undertook my review of this case, it was done so within the parameters of ST/SGB/2005/21. Indeed, the Ethics Office received independent and corroborative information in relation to whether a prima facie case of retaliation has been established.

While it is now understood that the case will not proceed any further within the parameters of ST/SGB/2005/21, I must advise that had the jurisdiction of the protection from retaliation bulletin applied, the information received by the Ethics Office would have supported a determination that a prima facie case had been established in this case.

Should UNDP wish to reconsider pursuing this matter within ST/SGB/2005/21, I believe it would be in best interests of the United Nations and UNDP to do so.

cc: Mr. Secretary-General
Mr. Nambiar
Mr. Melkert
Mr. Shkurtaj
Mr. Samaras

UNITED NATIONS **NATIONS UNIES**

Ethics Office — Bureau de la déontologie

Headquarters – Siège, S-3001, New York, NY 10017
Tel. 1 (917) 367-9859 Fax.1 (917) 367-9861

Reference: 2007/129

17 August 2007

Mr. Shkurtaj,

I have enclosed for your information a copy of the correspondence which I have today sent to UNDP in relation to your 5 June 2007 request for protection from retaliation.

I have indicated from the outset, that there was an issue regarding the application of ST/SGB/2005/21 to UNDP. In fact, from a purely legal perspective, the Ethics Office does not have jurisdiction to address a request for protection from retaliation arising from UNDP. However, as Director of the Ethics Office, I undertook to review your case, based upon the following:

(i) I received what I considered to be sincere and deeply concerned representations from the President of UNDP's Staff Council, who are clearly interested in ensuring this matter be dealt with in the best interests of UNDP;
(ii) an absence of an applicable protection from retaliation policy within UNDP;
(iii) the direct and public intervention of one of the Executive Board members of the UNDP; and
(iv) accountability in this matter is ultimately to the General Assembly.

As is evident from the attached memorandum, UNDP has decided that it does not wish to pursue this matter within the parameters of ST/SGB/2005/21; however, having undertaken to conduct a review of your case, had the jurisdiction of the protection from retaliation bulletin applied, in my view, a prima facie case of retaliation would have been established.

While it is unfortunate that this matter will not be considered independently and within the parameters of ST/SGB/2005/21, the Ethics Office hopes that UNDP will reconsider this matter, in the best interests of the United Nations.

Sincerely,

Robert Benson
Director, Ethics Office

cc: Mr. Samaras

Permanent Subcommittee on Investigations
EXHIBIT #2b

United Nations ST/SGB/2005/22

Secretariat

30 December 2005

Secretary-General's bulletin

Ethics Office — establishment and terms of reference

The Secretary-General, for the purpose of securing the highest standards of integrity of staff members in accordance with Article 101, paragraph 3, of the Charter of the United Nations, taking into consideration paragraph 161 of the 2005 World Summit Outcome[1] and pursuant to General Assembly resolution 60/248, hereby promulgates the following:

Section 1
Establishment of the Ethics Office

1.1 The Ethics Office is established as a new office within the United Nations Secretariat reporting directly to the Secretary-General.

1.2 The objective of the Ethics Office is to assist the Secretary-General in ensuring that all staff members observe and perform their functions consistent with the highest standards of integrity required by the Charter of the United Nations through fostering a culture of ethics, transparency and accountability.

Section 2
Appointment of the head of the Ethics Office

The head of the Ethics Office shall be appointed by the Secretary-General and will be accountable to the Secretary-General in the performance of his or her functions.

Section 3
Terms of reference of the Ethics Office

3.1 The main responsibilities of the Ethics Office are as follows:

(a) Administering the Organization's financial disclosure programme;

(b) Undertaking the responsibilities assigned to it under the Organization's policy for the protection of staff against retaliation for reporting misconduct and for cooperating with duly authorized audits or investigations;

[1] See General Assembly resolution 60/1.

05-66834 (E) 030106
0566834

Permanent Subcommittee on Investigations
EXHIBIT #3a

(c) Providing confidential advice and guidance to staff on ethical issues (e.g., conflict of interest), including administering an ethics helpline;

(d) Developing standards, training and education on ethics issues, in coordination with the Office of Human Resources Management and other offices as appropriate, including ensuring annual ethics training for all staff;

(e) Such other functions as the Secretary-General considers appropriate for the Office.

3.2 The Ethics Office will not replace any existing mechanisms available to staff for the reporting of misconduct or the resolution of grievances, with the exception of certain functions assigned to the Ethics Office under section 3.1 (b) above.

3.3 The Ethics Office shall maintain confidential records of advice given by and reports made to it.

3.4 In respect of its advisory functions as set out in section 3.1 (c) above, the Ethics Office shall not be compelled by any United Nations official or body to testify about concerns brought to its attention.

3.5 The Ethics Office shall provide annual reports to the Secretary-General and, through the Secretary-General, to the General Assembly. The reports shall include an overview of the activities of the Office and any evaluations and assessments relating to such activities. The Ethics Office may also comment on rules, regulations, policies, procedures and practices that have come to its attention, and may make recommendations as appropriate.

3.6 The Ethics Office may be consulted on policy issues where its expertise, views and experience may be useful.

Section 4
Access to the Ethics Office

4.1 All staff shall be informed of the manner in which they can bring matters of concern to the attention of the Ethics Office.

4.2 No person who brings a matter to the attention of the Ethics Office or provides information to it shall be subjected to reprisals because of such action.

Section 5
Duty to cooperate with the Ethics Office

All offices and staff members shall cooperate with the Ethics Office and provide access to all records and documents requested by it. The exceptions to this are medical records that are not available without the express consent of the staff member concerned and Office of Internal Oversight Services records that are subject to confidentiality requirements. Reports of the Joint Appeals Boards shall be routinely sent to the Ethics Office unless the appellant objects.

Section 6
Duty to report misconduct

Nothing in the present bulletin shall limit the duty of staff members to report misconduct.

Section 7
Access to internal recourse mechanisms

Nothing in the present bulletin shall limit the ability of staff members to seek redress through the internal recourse mechanisms.

Section 8
Entry into force

The present bulletin shall enter into force on 1 January 2006.

(*Signed*) Kofi A. **Annan**
Secretary-General

United Nations ST/SGB/2007/11

Secretariat

30 November 2007

Secretary-General's bulletin

United Nations system-wide application of ethics: separately administered organs and programmes

The Secretary-General, for the purpose of securing the highest standards of ethics and integrity of United Nations staff members and ensuring the consistent application of such standards within the United Nations including its separately administered organs and programmes; in accordance with Article 101, paragraph 3, of the Charter of the United Nations, taking into consideration paragraph 161 of the 2005 World Summit Outcome,[1] pursuant to General Assembly resolution 60/248, and consistent with Secretary-General's bulletin ST/SGB/2005/22 of 30 December 2005, entitled "Ethics Office — establishment and terms of reference"; and in consultation with the executive heads of separately administered organs and programmes, the Secretary-General hereby promulgates the following:

Section 1

Principles

1.1 The ultimate goal and principle of an Ethics Office of a separately administered organ or programme of the United Nations, established by the Executive Head of the organ or programme, pursuant to the present bulletin, shall be to cultivate and nurture a culture of ethics, integrity and accountability, and thereby enhance the trust in, and the credibility of, the United Nations, both internally and externally.

1.2 Independence, impartiality and confidentiality are vital prerequisites for the functioning and operation of an Ethics Office of a separately administered organ or programme of the United Nations, and they shall be fully respected.

1.3 In the performance of their responsibilities and duties, the Ethics Offices of a separately administered organ or programme of the United Nations shall not be compelled by any United Nations official or body to disclose issues brought to their attention. This is without prejudice to the role of the Ethics Office in the Secretariat as set out in section 4 below.

[1] See General Assembly resolution 60/1.

07-62109 (E) 301107
0762109

Permanent Subcommittee on Investigations
EXHIBIT #3b

1.4 The present bulletin shall be read in conjunction with Secretary-General's bulletin ST/SGB/2005/22 of 30 December 2005, entitled "Ethics Office — establishment and terms of reference".

Section 2

The head of the Ethics Office of a separately administered organ or programme

2.1 Each Ethics Office of a separately administered organ or programme shall be headed by an Ethics Officer, who shall function independently and report directly to the Executive Head of the respective separately administered organ or programme. When appointed, these ethics officers assume the relevant functions of existing ethics focal points as described in section 3 below. The Chairperson of the United Nations Ethics Committee, whose role is set out in section 5 below, will provide input into the annual performance assessment of each of the Ethics Officers.

2.2 If a separately administered organ or programme has not designated an Ethics Officer by January 2008, the Ethics Office of the United Nations Secretariat shall discharge the duties and responsibilities of the Ethics Office, as set out in this bulletin, until the separately administered organ or programme designates an Ethics Officer.

2.3 The Chairperson of the Ethics Committee is responsible for providing functional leadership to all Ethics Officers of the funds and programmes, in order to promote the building and developing of capacity, including adequate levels of professionally qualified resources; and ensure adherence to consistent methodology in the delivery of ethics-related services.

2.4 The responsibilities of an Ethics Officer of a separately administered organ or programme's Ethics Office shall neither prejudice or replace existing investigative or other relevant mechanisms, nor replace procedures for the administration of justice of the separately administered organs or programmes or the Secretariat, established in accordance with the relevant staff regulations and rules.

Section 3

Terms of reference of the Ethics Office of a separately administered organ or programme

An Ethics Office of a separately administered organ or programme shall have the following responsibilities:

(a) Developing standards, training and education on ethics issues, in coordination with the relevant units of the separately administered organs and programmes such as Legal, Internal audit/Oversight, and Human resources, as appropriate, as well as the United Nations Ethics Committee, as set out in section 5 below, in order to ensure that there is a uniform and consistent application of ethics-related issues within the United Nations system;

(b) Providing guidance to management of the separately administered organ or programme concerned to ensure that the Organization's rules, policies, procedures and practices reinforce and promote the standards of integrity called for under the Charter of the United Nations;

(c) Providing confidential advice and guidance to staff of the separately administered organs or programmes on ethical issues;

(d) Serving as a focal point for raising staff awareness within the separately administered organ or programme on ethical standards and expected behaviour within the context of oversight of each separately administered organ or programme as well as human resources development policies, strategies and programmes and in close cooperation with its respective oversight and human resources organizational units;

(e) Undertaking the responsibilities assigned to the Ethics Office in accordance with the policy for the protection of staff against retaliation of the respective separately administered organ or programme;

(f) In the absence of a separately administered organ or programme having in place a policy for protection against retaliation, staff members of the separately administered organ or programme may request protection from retaliation under Secretary-General's bulletin ST/SGB/2005/21;

(g) Administering the financial disclosure programme of the respective separately administered organ or programme, except for those staff members at Assistant Secretary-General level and above, for whom the programme will continue to be administered by the Ethics Office of the United Nations Secretariat;

(h) Providing to the executive heads of separately administered organs or programmes an annual report on the activities of the Ethics Office.

Section 4

Independence of the Ethics Offices of separately administered organs and programmes and the rights of staff members

4.1 In order to safeguard and ensure that all matters associated with the discharge of duties and responsibilities of the Ethics Office of the separately administered organ or programme are independent and free from any undue pressure and influence, solely at the discretion of the head of a separately administered organ's or programme's Ethics Office, he or she may refer any matter within the Office's area of responsibility, at any time, to the Chairperson of the United Nations Ethics Committee for advice and guidance, and shall inform the Executive Head of the separately administered organ or programme of the referral made.

4.2 Staff members of the separately administered organ or programme shall seek recourse with the Ethics Office of the respective separately administered organ or programme, and use the existing policies, procedures and resources available within the separately administered organ or programme to address ethical issues. In principle, allegations of retaliation shall be handled by the respective competent and authorized units within each separately administered organ or programme.

4.3 If, following the receipt of a request for advice or complaint submitted by a staff member in accordance with subparagraph (c) or (e) of section 3 above, the respective Ethics Office does not, within forty-five days, formally consider the request, the staff member may then refer the matter in writing to the Chairperson of the United Nations Ethics Committee. Alternatively, if following a final determination by the respective Ethics Office of a matter referred to it by a staff member, the said staff member wishes to have the matter reviewed further, he or she may, in writing, refer the matter to the Chairperson of the Ethics Committee. In such an event, the Chairperson, after consultation with the Ethics Committee, may

undertake his or her own independent review of the matter and provide a written report to the Executive Head of the separately administered organ or programme. Independent review for the purposes of this provision shall include review of the actions already taken by the concerned Ethics Office, determination of what additional actions are required, including, in the case of matters falling under subparagraph (e) of section 3, whether referral for investigation is warranted based on the requirements of the policy for protection against retaliation of the concerned Ethics Office, and provision of recommendations to the Executive Head of the concerned separately administered organ or programme. The Chairperson will include a summary of all such cases in the annual report of the activities of the Ethics Office of the United Nations Secretariat.

4.4 Where a matter has been referred for advice and guidance by an Ethics Officer of a separately administered organ or programme to the Chairperson of the Ethics Committee pursuant to section 4.1 above, or where a staff member has referred a matter pursuant to section 4.3 above to the Chairperson of the Ethics Committee, the Executive Head of the separately administered organ or programme shall provide the Chairperson with the necessary support, including access to records, staff members and contractors, where feasible.

Section 5

United Nations Ethics Committee

5.1 The United Nations Ethics Committee shall be established consisting of the heads of the Ethics Offices of the separately administered organs and programmes of the United Nations and the Ethics Office of the United Nations Secretariat. The United Nations Ethics Committee shall be chaired by the head of the Ethics Office of the United Nations Secretariat.

5.2 The United Nations Ethics Committee shall establish a unified set of standards and policies of the United Nations Secretariat and of the separately administered organs and programmes, and consult on certain important and particularly complex cases and issues having United Nations-wide implications raised by any Ethics Office or the Chairperson of the Ethics Committee.

5.3 Meetings of the United Nations Ethics Committee shall be convened by the Chairperson.

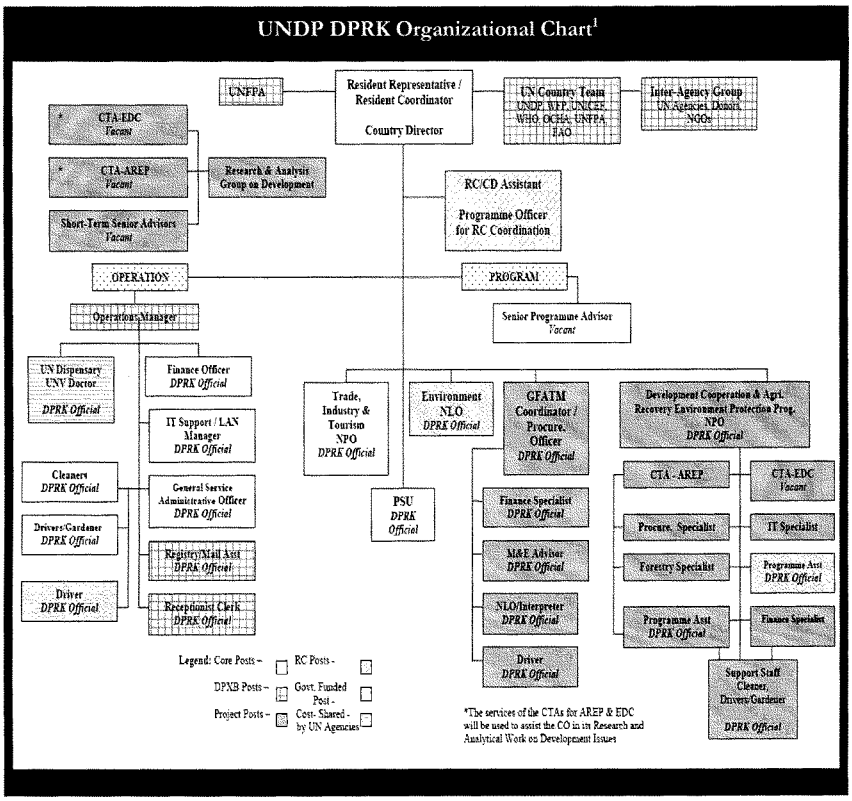
5.4 The United Nations Ethics Committee shall review the annual reports of the Ethics Offices of the United Nations Secretariat and the separately administered organs and programmes and make recommendations for the future, as may be appropriate. The executive heads of the separately administered organs and programmes shall include, in their annual reports to their respective Executive Boards, the recommendations made by the United Nations Ethics Committee that specifically relate to them.

Section 6

Entry into force

The present bulletin shall enter into force on 1 December 2007.

(*Signed*) **Ban** Ki-moon
Secretary-General



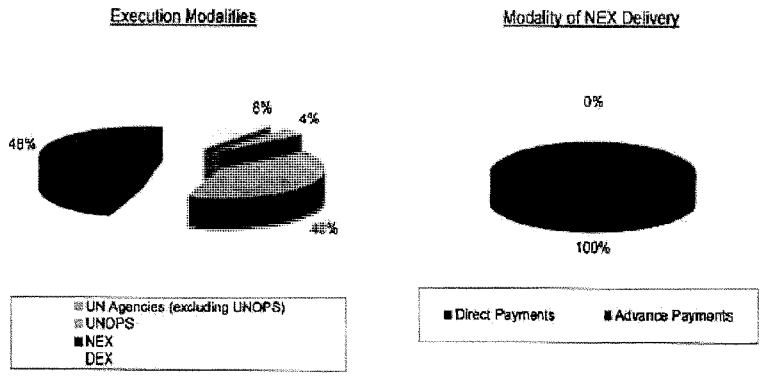
[1] This organizational chart is dated December 2003 and appears in an audit report issued in 2004. The Subcommittee redacted the names of individuals to protect their identity and inserted the term "DPRK Official" to indicate which positions were filled by local staff.

Permanent Subcommittee on Investigations

EXHIBIT #4

Excerpt from 2004 UNDP Internal Audit
Showing Breakdown of NEX/DEX Modalities

NEX and Government Counterparts



Out of the total budget value of on-going projects of $12 m, 48% is NEX, 40% is executed by UNOPS, 8% is DEX and the remaining 4% by other agencies. The Office is providing 100% support services to NEX projects in terms of direct payments.

The Office's main Government counterparts are the Ministry of Foreign Affairs and the General Bureau for Cooperation with International Organisations, Ministry of Foreign Trade.

Permanent Subcommittee on Investigations
EXHIBIT #5

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

January 16, 2007

Dear Mr. Melkert,

I enjoyed our discussion over breakfast this morning and I understand that Mr. Dervis is currently on travel.

Thank you again for allowing me to lead a United States Mission to the United Nations Management Review Section (USUN MR) team on an in person review of certain UNDP DPRK internal audits on January 11, 2007. At the meeting UNDP made available three (3) Internal Audits (1999, 2001, 2004) for USUN's on site review (no photocopies permitted).

For your information the following specific points and conclusions were drawn directly from the Audits during the Six (6) hour in person review by USUN MR.[1] The Audits reveal that:

1. UNDP local staff is dominated by DPRK government employees;
2. UNDP DPRK government employees have performed financial and program managerial core functions in violation of UNDP rules;
3. The DPRK government insists upon and UNDP pays cash to local DPRK government suppliers in violation of UNDP rules;
4. UNDP funds DPRK controlled projects without the oversight required by UNDP rules;
5. There is no audit review of DPRK controlled programs in violation of UNDP rules;

Mr. Ad Melkert,
Associate Administrator,
United Nations Development Program,
One United Nations Plaza, Room DC1-2118,
New York, New York 10017.

[1] USUN relies solely on the accuracy of these KPMG and UNDP internal audits in determining the efficacy of the statements included in this letter.

Permanent Subcommittee on Investigations
EXHIBIT #6

6. The DPRK refuses to allow outside audits of any DPRK projects and instead either limits UNDP audits or utilizes "sham" DPRK audits in violation of UNDP rules;
7. UNDP officials are not permitted to perform site visits to many UNDP DPRK projects in violation of UNDP rules;

The UNDP program has laudable goals of providing assistance to the North Korean peoples. Unfortunately, because of the actions of the DPRK government and the complicity of UNDP, at least since 1998 the UNDP DPRK program has been systematically perverted for the benefit of the Kim Jong Il regime – rather than the people of North Korea. The UNDP DPRK program has for years operated in blatant violation of UN rules, served as a steady and large source of hard currency and other resources for the DPRK government with minimal or no assurance that UNDP funds and resources are utilized for legitimate development activities. Importantly, UNDP apparently has failed to bring the widespread violation of UNDP rules in the DPRK country program to the attention of the UNDP Executive Board.

Each Audit found that the UNDP DPRK program was only Marginally or Partially Sufficient indicating, "timely corrective action is required by management."

As of December 31, 1998, UNDP had three (3) international staff (Resident Representative "RR", Deputy "DRR" and Associate "ARR") and fourteen (14) local staff in the DPRK program. 1999 Audit pg. 22 of 50. As of 2001, UNDP had sixteen (16) total staff – two (2) International Staff, and fourteen (14) local staff in the DPRK. Of the 14 local staff, three (3) served in program functions and eleven (11) served in administration and finance functions. 2001 Audit, Annex pg. 4 of 5. As of 2004 the UNDP DPRK program consisted of two (2) International staff and twenty-two (22) local Staff and one SSA (consultant). Of the 22 local staff, nineteen (19) served as general services staff and three (3) served as national program officers. 2004 Audit pg. 14 of 57.

All UNDP local staff in the DPRK are seconded from and controlled by the DPRK government. Various Citations in all Audits, e.g. 2001 Audit pg. 22 of 50. In apparent violation of UNDP rules, UNDP pays all local staff salaries directly to the DPRK government, as dictated by the DPRK, which is to then "pass on" payment to the local seconded staff. UNDP pays $120.00 per month in a meal allowance directly in cash to the local staff also in apparent violation of UNDP rules. 2004 Audit pg. 31 of 57.

Local DPRK (government) personnel perform most UNDP office functions as local staff or under SSA or SC's (consulting contracts) including "core" functions required to be performed by international staff in violation of UNDP rules. For example apparently a local DPRK national working under contract performed the following functions:

- Bank Signatory and certifying officer functions
- Personnel Actions
- Prepares Contracts and Travel Authorizations
- Manages Petty Cash and maintains financial records

- Acts as staff officer to dispose of equipment and supplies

According to UNDP management, "[i]n view of the fact that all National Staff are not UNDP staff as the DPRK government seconds them and thus they are (DPRK) government employees. Therefore in the absence of the regular international staff we had no choice but to assign the functions of certifying office and bank signatory to the (local staff) Special Services Agreement holder...." 2001 Audit pg. 26 of 50. UNDP management of petty cash is inadequate and without appropriate controls. The UNDP check book is not adequately controlled or kept in a secure location and no check register is kept reflecting checks written. e.g. 1999 Audit pg. 35-37 of 45.

As of 1999 there were twenty-nine (29) ongoing UNDP projects in the DPRK with a total budget of $27.86 million. There are two general types of projects:

1. DPRK National Execution programs (NEX) which are "nationally executed" by the DPRK government with UNDP paid funds. Such programs constituted 66.7% of all DPRK programs;
2. UNDP directly executed programs which constituted 28.7% of all DPRK programs.

1999 Audit pg. 7 of 45. The Audits criticize UNDP for routinely making direct payments to the DPRK (supposedly for disbursement) for DPRK NEX Programs. UNDP pays directly in cash for all local expenditures for UNDP executed programs. 1999 Audit pg. 22 of 45.

UNDP does not use Local Purchase Order (PO's) forms and all local purchases are made with cash. 1999 Audit pg. 4 of 44. Even purchases over $1,000.00 are made in cash. 1999 Audit pg 38 of 45. There are no local DPRK suppliers other than the DPRK government, the DPRK government fixes all prices, and the DPRK does not accept PO's. The DPRK government does not accept checks – only cash. There are no annual DPRK government contributions (in-kind or otherwise) towards local in-country UNDP office costs ("GLOC") – meaning the DPRK charges and UNDP pays the DPRK for all local office costs including such as rent.[2] 1999 Audit pg 39 of 45. As a result all of UNDP's local expenditures and procurement are paid in cash directly to the DPRK government.

KPMG sampled certain program projects during the 1999 and 2001 Audits. In 2001 KPMG sampled twelve (12) DPRK projects and found that UNDP did not maintain financial reports or audits of seven (7) of the 12 sampled projects. 2001 Audit pgs. 12-15 of 50. "However it should be noted that the NEX audits (performed by the DPRK government) are generally defective and do not clearly identify and address issues which require follow-up." 2001 Audit pg 17 of 50. There are "serious deficiencies in the NEX audits" and "it is not possible to ascertain who is actually responsible for carrying out the NEX audits.... [in the DPRK government]." 2001 Audit pg 18 of 50. "There are no government (DPRK) auditors as such" and each NEX "audit" is carried out by the

[2] But see 1999 Audit pg 14 of 15, where UNDP comments that local contributions are generally office space and national staff time.

respective DPRK ministry designated as government executing agent. 2001 Audit pg. 21 of 50.

UNDP rules require at east one (1) project field visit per year. In 1999 KPMG analyzed a sample of five (5) selected projects and concluded that there were no project field visits to three (3) of the projects (for many years). UNDP cannot fulfill the one (1) project field visit per year rule because the DPRK prohibits foreign visitors (including UNDP international staff) from visiting various UNDP DPRK project sites. 1999 Audit pg. 14 of 50.

Simply put, in the absence of real audits and site visits it is impossible for UNDP to verify whether or not any of the funds paid to the DPRK for supposed use in UNDP programs have actually been used for bona fide development purposes or if the DPRK has converted such funds for its own illicit purposes.

Based on the above described, and disturbing findings as well as the information exchanged in our earlier correspondence, it is imperative that UNDP shine the bright light of real oversight on the DPRK program. Without real transparency and without truly understanding the nature of the UNDP program in DPRK, no Executive Board Member will be in a position to make an informed decision on the appropriate continuation or deferral of the DPRK program.

Accordingly, I urge you to immediately institute a full independent and outside forensic audit of the DPRK country program going back to at least 1998 with an emphasis on our concern that the DPRK regime has converted the development resources of the UN and UNDP to its own illicit purposes.

I appreciate all of your help.

Thank you for your attention to this matter.

Sincerely,

Mark D. Wallace
Ambassador

-----Original Message-----
From: [redacted] (Legislative Affairs) [redacted]
Sent: Tuesday, June 05, 2007 1:01 PM
To: [redacted] (HSGAC); [redacted] (HSGAC); [redacted] (Warner)
Subject: UNDP in DPRK paper and attachment

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Hello -

As discussed, please find attached points from the recent briefing by Ambassador Wallace re: UNDP in DPRK, which Senator Coburn, Senator Coleman and Senator Warner expressed interest in receiving. Please let me know if I can be of further assistance. Thanks.

Sincerely,

[redacted]

U.S. Department of State
Bureau of Legislative Affairs
2201 C Street, NW
Washington, D.C. 20520
[redacted]

Permanent Subcommittee on Investigations
EXHIBIT #7

May 23 Briefing by Ambassador Wallace
Regarding UNDP Activities in North Korea

The State Department has previously reported findings of irregularities about cash payments related to UN Development Program (UNDP) activities in North Korea, seconded DPRK government officials working in key UNDP positions, and the lack of monitoring and site visits in UN Development Program activities in North Korea. Information from UNDP eyewitness accounts and internal UNDP business records show that:

- During 2001 and 2005, UNDP, using electronic funds transfer (EFT), transferred over $7 million of its funds to a DPRK government entity, National Coordination Committee for UNDP (NCC).

- During 2001-2002 UNDP transferred at least $400,000 to DPRK through a Macau-based entity.

- UNDP also used EFT to transfer over $8 million of other UN agencies' funds to the DPRK government during the same period.

- The DPRK government then transferred at least $2.8 million of UNDP funds to DPRK missions in Europe and New York to "cover buildings and houses" including as payment for purchase of buildings in France, UK, and Canada.

- In January 2006, UNDP headquarters instructed UNDP's Pyongyang office to make no reference to North Korea in payment details when executing payments drawn from UNDP's overseas U.S. dollar account.

- UNDP paid nearly $2.7 million for "goods and equipment," to an entity that has ties to a North Korean entity that has been designated under E.O. 13382 as the main North Korean financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.

- UNDP procured for DPRK the following equipment with possible dual use: 1) global positioning system (GPS) equipment; 2) computers and computer accessories; and 3) a mass spectrometer.

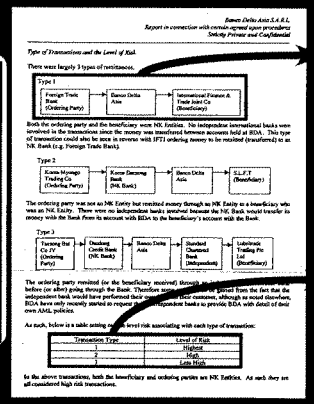
- UNDP's locally hired employees (seconded from the DPRK government), on several occasions, "withdrew" from UNDP's account at the DPRK's Foreign Trade Bank (FTB) what UNDP officials reported were counterfeit U.S. currency, amounting to at least tens of thousands of dollars.

- UNDP also withdrew U.S. dollars from its euro account at the FTB, which charged an apparent conversion fee per transaction for converting euros into U.S. dollars.

- In March 2007, UNDP procured for the DPRK 29 books under a "capacity building for arms control and disarmament" project (see list of books attached).

- UNDP is alleged to have retaliated against an employee who revealed information relating to UNDP mismanagement and abuses and to have sought to intimidate other employees from providing such information.

NORTH KOREA TRANSACTION USING I.F.T.J.



Banco Delta Asia S.A.R.L.
Report in connection with certain agreed upon procedures
Strictly Private and Confidential

Type of Transactions and the Level of Risk

There were largely 3 types of remittances.

Type 1

Foreign Trade Bank (Ordering Party) → Banco Delta Asia → International Finance & Trade Joint Co (Beneficiary)

Both the ordering party and the beneficiary were NK Entities. No independent international banks were involved in the transactions since the money was transferred between accounts held at BDA. This type of transaction could also be seen in reverse with IFTJ ordering money to be remitted (transferred) to an NK Bank (e.g. Foreign Trade Bank).

Type 2

Korea Myongo Trading Co (Ordering Party) → Korea Daesong Bank (NK Bank) → Banco Delta Asia → S.L.F.T (Beneficiary)

The ordering party was not an NK Entity but remitted money through an NK Entity to a beneficiary who was an NK Entity. There were no independent banks involved because the NK Bank would transfer its money with the Bank Pyon to account with BDA to the beneficiary's account with the Bank.

Type 3

Tacsong Bul Co JV (Ordering Party) → Daedong Credit Bank (NK Bank) → Banco Delta Asia → Standard Chartered Bank (Independent) → Lokomak Trading Pte Ltd (Beneficiary)

The ordering party remitted (or the beneficiary received) through [illegible] before (or after) going through the Bank. Therefore [illegible] gained from the fact that the independent bank would have performed their [illegible] their customer, although as noted elsewhere, BDA have only recently started to request [illegible] independent banks to provide BDA with detail of their own AML policies.

As such, below is a table setting [illegible] level risk associating with each type of transaction:

Transaction Type	Level of Risk
1	Highest
2	High
3	Less High

In the above transactions, both the beneficiary and ordering parties are NK Entities. As such they are all considered high risk transactions.

Type 1

Foreign Trade Bank (Ordering Party) → Banco Delta Asia → International Finance & Trade Joint Co.

Transaction Type	Level of Risk
1	Highest

Permanent Subcommittee on Investigations

EXHIBIT #8

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 9th SEP 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary SINDOK TRADING PTE LTD.	
Address: (if enquired)	
A/c No. of Beneficiary [redacted]	
Name of Receiving Bank UNITED OVERSEAS BANK LTD., SINGAPORE	
Address of Receiving Bank	
Message (if any) B/O UNDP PYONGYANG MSG: SUB-CONT. NO.563/2002/TSC REF.602 EMG 069	FOR OFFICE USE ONLY
Amount in words & figures (USD.229,997.00) U.S. DOLLARS TWO HUNDRED TWENTY NINE THOUSAND NINE HUNDRED NINETY SEVEN ONLY.	Draft / Ref. No.: BDA/RE/DTT/5513/02 Paying Agent: Rate / HK Equivalent
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO. ID / Passport No.:	Cable / Postage Commission HK$200
09:46:06 2002/09/09 T/C: 013A d.F.T.C. [redacted] TRD 929 TRDEP $229,997.00 USD TRW [redacted] TRFWDW $229,997.00 USD	[redacted]
373848 Tel No.:	Total*

BDA/RE/DTT/5513/02

Payment of the above remittance [redacted]
☐ By cash
☐ By cheque
(subject to final clearance)
X ☐ Please debit my / our account no. [redacted]
☐

I/We [redacted] transfer is made subject to the conditions printed on the [redacted] side herein.

Signature of Applicant: [redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

Permanent Subcommittee on Investigations
EXHIBIT #9

Summary of Transactions from IFTJ to DPRK Embassy Accounts for Purchases of Buildings Purportedly Related to UNDP Activity

DATE	ORIGINATOR OF FUNDS TRANSFER	NAMED RECIPIENT OF FUNDS TRANSFER	MESSAGE ATTACHED TO THE TRANSFER	AMOUNT
April 10, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62-077	$300,000
May 7, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62-087	$300,000
May 10, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC for UNDP Cover Building N Houses, Ref. TTB62-090	$220,000
July 17, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in Sweden	B/O NCC for UNDP, Ref. TTB62-127 Msg: Payment for Purchase of Building (UK)	$300,000
August 14, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in Sweden	B/O NCC for UNDP, Ref. TTB62-139 Msg: Payment for Purchase of Building (UK)	$300,000
August 27, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York USA	B/O NCC for UNDP, Ref. TTB62-144 Msg: Payment for Purchase of building (Canada)	$300,000
August 30, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York, USA	B/O NCC for UNDP, Ref. TTB62-150 Msg: Payment for Purchase of building (Canada)	$300,000
September 3, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in London	B/O NCC for UNDP Ref TTB62-152 Msg: Payment for Purchase of Building	$300,000
September 9, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York USA	B/O NCC for UNDP Ref TTB62-155 Msg: Payment for Purchase of Building (Canada)	$400,000
TOTAL				$2,720,000

Prepared by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #10

= Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 10th APR 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	DELEGATION GENERALE DE LA R.P.D. DE COREE DE PARIS
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANQUE COMMERCIALE POUR L'EUROPE DU NORD-EUROBANK, PARIS
Address of Receiving Bank	
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE OF THE DPRK FOR UNDP COVER BUILDING N HOUSES, REF.TTB62-077
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	
Paying Agent:	BDA/RE/OTT/2227/02
Rate	HK Equivalent
Cable / Postage	
Commission	HK$150
Total*	

10:13:35 2002/04/10 T/C: 013A INT'L F. & T. J. CO. [redacted]
[redacted] TRD 929 TRFDEP $300,000.00 USD
TRW [redacted] TRFWDW $300,000.00 USD

BDA/RE/OTT/2227/02

Payment of the above remittance ~~XXXXXX~~
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account
no. [redacted]
☐

I/We hereby agree that the transfer is made subject to the conditions printed on the reverse side herein.

INTERNATIONAL FINANCE AND TRADE JOINT CO. MACAU

Signature of Applicant

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

Permanent Subcommittee on Investigations
EXHIBIT #11

= Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 3rd MAY 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	DELEGATION GENERALE DE LA RPD DE COREE DE PARIS
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANQUE COMMERCIALE POUR L'EUROPE DU NORD-EUROBANK, PARIS,
Address of Receiving Bank	FRANCE
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE OF THE UNDP COVER BUILDING N HOUSES, REF.TTB62-087
Amount in words & figures (USD:300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RE/OTT/2618/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD200
Total*	

09:21:51 2002/05/03 T/C: 013A INT'L F. & T. J. CO. [redacted]
[redacted] TRD 929 / TRFDEP $300,000.00 USD
TRN [redacted] TRFWDN $300,000.00 USD

BDA/RE/OTT/2618/02

Payment of the above remittance XXXXXXX
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account
no. [redacted]
☐ _____

I/We hereby [illegible] transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant [redacted]

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 10th MAY 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	DELEGATION GENERALE DE LA RPD DE COREE DE PARIS
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANQUE COMMERCIALE POUR L'EUROPE DU NORD EUROBANK, PARIS.
Address of Receiving Bank	FRANCE
Message (if any)	B/O NATIONAL COORDINATION COMMITTEE FOR UNDP COVER BUILDING N HOUSES, REF.TTB62-090
Amount in words & figures (USD.220,000.00)	U.S. DOLLARS TWO HUNDRED TWENTY THOUSAND ONLY.
Name of Applicant:	~~INTERNATIONAL FINANCE AND TRADE~~ JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA / RE/OTT/2783/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD200-
Total*	

02/05/14 2002/05/10 T/C: 013A INT'L F. & T. J. CO. [redacted]
[redacted] TRD 929 TRFDEP $220,000.00 USD
TRN [redacted] TRFWDW $220,000.00 USD

BDA/RE/OTT/2783/02 XXXXXX

*Payment of the above remittance plus charge
☐ By cash
☐ By cheque (subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐ _____

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.
Signature of Applicant [redacted]

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合作社 MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 17th JUL 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	EMBASSY OF DPR OF KOREA IN SWEDEN
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW
Address of Receiving Bank	YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127 MSG: PAYMENT FOR PURCHASE OF BUILDING(UK)
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

09:42:24 2002/07/17 T/C: 013A I.F.T.C.
[redacted] TRD 929 TRFDEP $30[illegible],000.00 USD
TRW [redacted] TRFWDN ~~$30,000.00 USD~~

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BOB/RT/077/436P/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission [redacted]	HK$200
Total*	

BOA/RE/OTT/4369/02

Payment of the above remittance ~~XXXXXX~~
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account
no. [redacted]
☐

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

Signature(s) of applicant

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

[redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAO

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 14th AUG 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	EMBASSY OF DPR OF KOREA IN SWEDEN
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW
Address of Receiving Bank	YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-139 MSG: PAYMENT FOR PURCHASE OF BUILDING (UK)
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	~~INTERNATIONAL FINANCE AND TRADE~~ JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RE/OTT/CO27/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD 200
[redacted]	
Total*	

[redacted] 09:37:01 2002/08/14 T/C: 013A I.F.T.C.
~~TRB 929~~ ~~TRFDEP~~ ~~$300,000.00 USD~~
TRN [redacted] TRFWDW $300,000.00 USD

BDA/WIRE/TT ~~[illegible]~~ Remittance plus charge XXXXXX

☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account
no. [redacted]
☐

I/We hereby acknowledge that this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant [redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 21st AUG 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK USA
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	JPMORGAN CHASE BANK, NEW YORK
Address of Receiving Bank	

Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-144 MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)	FOR OFFICE USE ONLY	
		Draft / Ref. No.:	BDA/RT/OTT/5138/02
Amount in words & figures (USD.300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.		Paying Agent:	
		Rate	HK Equivalent
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.	Cable / Postage	
ID / Passport No.:		Commission	HK$200
09:35:44 P002/08/21 T/C: 013A I.F.T.C. [redacted] TRB 927 TRFDEP $300,000.00 USD TRW [redacted] TRFWDW $300,000.00 USD		[redacted]	
Tel No.:	373848	Total*	

BDA/RT/OTT/5138/02 Remittance XXXXXX

☐ By cash
☐ By cheque (subject to final clearance)
X Please debit my / our account no. [redacted]
☐ _____

I/We hereby agree that this transfer is made subject to the conditions contained on the reverse side herein.

Signature of Applicant: [redacted]

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

For and on behalf of
BANCO DELTA ASIA S.A.R.L.

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 30th AUG 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK, USA
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	JPMORGAN CHASE BANK, NEW YORK
Address of Receiving Bank	

Message (if any): B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-150
MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)

Amount in words & figures (USD.300,000.00)
U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.

Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:

09:58:00 2002/08/30 T/C: 013A I.F.T.C.
[redacted] TRD 929 TRFDEP $300,000.00 USD
TRW [redacted] TRFWDW $300,000.00 USD

Tel No.: 373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RC/DTT/ 8352/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HK200
[redacted]	
Total*	

BDA/RC/DTT/8352//02

Payment of the above remittance XXXXXX
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐

We hereby agree that this transfer is made subject to the conditions printed on both the reverse side herein.

Signature of Applicant: [redacted]

BANCO DELTA ASIA S.A.R.L. MACAU 貿易合營公司 MACAU

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 3rd SEP 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	EMBASSY OF DPR OF KOREA IN LONDON
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	HSBC BANK PLC., NORTH FINCHLEY, 789 HIGH ROAD LONDON N 128 IX UK
Address of Receiving Bank	
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-152 MSG: PAYMENT FOR PURCHASE OF BUILDING
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

09:53:41 2002/09/03 T/C: 013A I.F.T.C.
[redacted] TRD 929 TRFDEP $300,000.00 USD
TRW [redacted] TRFWDW $300,000.00 USD

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RE/OTT/5392/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD 200
[redacted]	
Total*	

BDA/RE/OTT/5392/02

Payment of the above remittance [redacted]
☐ By cash
☐ By cheque
☐ Please debit my/our a/c no. [redacted]
☐

10:53:41 2002/09/03 T/C: 013A
0209030 IE/7930 TRD 913 TRFDEP $300,000.00 USD
TRFWDW $300,000.00 USD

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant [redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU.

BDA/RE/OTT/5392/02

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 9th SEP 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK USA
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	JPMORGAN CHASE BANK, NEW YORK
Address of Receiving Bank	

Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-155 MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)	FOR OFFICE USE ONLY	
		Draft / Ref. No.:	BDA/RE/DRT/5514/02
Amount in words & figures (USD.400,000.00) U.S. DOLLARS FOUR HUNDRED THOUSAND ONLY.		Paying Agent:	
		Rate	HK Equivalent
		Cable / Postage	
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.		Commission	HK$200
ID / Passport No.:		[redacted]	
09:47:49 2002/09/09 T/C: 013A I.F.T.C. [redacted] TRD 929 TRFDEP $400,000.00 USD TRN [redacted] TRFWDW $400,000.00 USD			
Tel No.: 373848		Total*	

BDA/RE/DRT/5514/02

Mode of Remittance ~~XXXXXX~~

☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐

I/We hereby confirm that this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant: [redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

June 7, 2007

By Hand Delivery

Mr. Ad Melkert
Associate Administrator
United Nations Development Programme
One United Nations Plaza, Room 2118
New York, New York 10017

Dear Mr. Melkert:

Thank you for taking the time to meet with me today and for the meeting with Mr. Dervis yesterday. As promised we are providing specific information related to our concerns. Because of the detailed nature of our concerns, for your convenience I have outlined the points that we raised today in this letter.

As you know the United States is greatly concerned with the operations of UNDP in various country programs including in the DPRK.

The United States is concerned about UNDP transactions on its own behalf or on behalf of other UN organizations with two entities in particular. One is an entity known as Zang Lok Trading Co. (Zang Lok) and the other is International Finance and Trade Joint Co. (IFTJ). Both are based in Macau.

Zang Lok has ties to a North Korean entity that has been designated under United States laws (E.O. 13382) as the main North Korean financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.

As to IFTJ, we have learned that the DPRK between April and September 2002 directed sizeable transfers of UNDP funds through Banco Delta Asia (BDA) bank accounts controlled by IFTJ in Macau. UNDP made certain direct Electronic Funds Transfer (EFT) payments to the DPRK's National Coordinating Committee for UNDP (NCC-UNDP) in 2001-2002 (and at other times) which then instructed IFTJ to forward these funds onward to various DPRK embassies outside of DPRK in order to purchase buildings and houses. As you may know, the U.S. Treasury Department in September 2005, designated BDA as a primary money laundering concern in part because of its role

Permanent Subcommittee on Investigations
EXHIBIT #12

over a number of years in facilitating illicit financial transactions on behalf of DPRK entities.

- Because of our concern, please provide information on all transactions including, the total number of transactions, the nature of each such transaction (including any items procured) and the amounts of all such transactions UNDP engaged in on its own or on behalf of other UN organizations with these entities from 1998 until the present.
- Please describe how such fund transfers were deemed to be consistent with the UNDP DPRK country program. Please provide this information for particularly the DPRK country program and for any and all other country programs as well.
- In addition, please provide a copy of the Memorandum of Understanding (MOU) and or any other contract(s) that govern the terms of such transactions with IFTJ or Zang Lok.
- Finally, we request that UNDP cease doing business with IFTJ and Zang Lok.

The United States is concerned with UNDP's purchase of equipment that has "dual use" capability (legitimate civilian use and military and weapons proliferation use) for the DPRK government purportedly under the stewardship of the UNDP DPRK country program. For example it appears that on May 13, 2006 UNDP procured and delivered a sophisticated Global Positioning Equipment (GPS) system, a portable high-end mass spectrometer, and a large quantity and variety of high specification computer equipment. UNDP purportedly acquired such equipment for an "Agricultural Assistance Project for Landscaping" (the "Landscaping Project"). The UNDP DPRK country program for 2005-2008 as approved in 2004 contains no mention of such a Landscaping Project[1] nor that UNDP would acquire such "dual use" equipment for the DPRK.

- Because of our concern, please provide information on all transactions including, the total number of transactions, the nature of each such transaction (including a description of any items procured) and the amounts of all such transactions in which UNDP acquired "dual use" equipment on behalf of the DPRK from 1998 until the present.
- As you are aware such "dual use" equipment is subject to U.S. export control laws. Accordingly, please provide copies of any and all U.S. export licenses that UNDP obtained for these transactions.
- As you are aware, the United States assumes that all UN organizations that are headquartered in the U.S., including UNDP, to comply with U.S. export control laws and regulations.

As you are aware the United States is deeply concerned with the illegal counterfeiting of United States currency. On February 15, 2007 you advised me that

[1] The country program does state generally UNDP's intention to "improve agricultural production for food safety and environmental sustainability."

UNDP was in possession of suspected counterfeit U.S. dollar bank notes that were subsequently delivered to the United States Secret Service.

- As part of our inquiry into this matter, please provide copies of any and all UNDP documents including but not limited to safe content records, letters, emails, memorandums, payment vouchers, in either paper or electronic form that arise out of or relate in any way to UNDP's receipt, retention, disclosure, and turnover of such suspected counterfeit bank notes to the United States.
- In addition please provide copies of any and all UNDP internal documents, in either paper or electronic form that arise out of or relate in any way to any UNDP transaction or activity involving actual or suspected counterfeit U.S. currency.

As you are further aware UNDP frequently sponsored international travel for DPRK officials. In a variety of instances UNDP's locally hired employees (seconded from the DPRK government), appears to have "withdrawn" counterfeit U.S. currency from UNDP's account at the DPRK's Foreign Trade Bank (FTB) for such travel even after UNDP purportedly stopped using U.S. dollars in the DPRK country program in 2002. After 2002, UNDP did not maintain a U.S. dollar account in the FTB, but rather solely maintained euro and won accounts. In instances wherein UNDP delivered U.S. dollars to DPRK officials, the FTB charged UNDP two (2) payment transaction charges rather than the typical single payment-handling fee. The two (2) payment transaction charges appear to reflect a payment-handling fee and a currency conversion fee to convert UNDP euros to dollars at the FTB in Pyongyang.

- Please provide the total number and total amount of individual UNDP payments wherein the DPRK FTB charged UNDP two (2) separate payment transaction charges.
- Please describe the reason for FTB's charge and UNDP's payment of two (2) separate payment charges for all such transactions.
- Please describe why UNDP provided U.S. dollars to DPRK officials in Pyongyang for travel (or for any other reason) after 2002 when euro currency is negotiable worldwide.
- Please provide any and all information as to UNDP's knowledge or suspicion of the use of counterfeit U.S. dollars in such transactions.

The United States is concerned that UNDP procured for the DPRK 29 arms control negotiation and other foreign policy related books for the DPRK as recently as March of this year purportedly for a "Capacity Building in Arms Control and Disarmament Project" (the "Project"). The UNDP DPRK country program's from 2001 to the present do not contemplate nor authorize such a Project.[2]

[2] The 1997-1999 UNDP DPRK country program does refer to a program entitled "Disarmament and Peace Institute Project," but it does not reference such book purchases.

- Because of our concern, please provide a description of the rationale and justification for the Project and for the book purchases.
- In addition please provide an explanation of how such a Project and book purchases fall under the scope of the UNDP DPRK country program. Finally, please provide a detailed description of all Project activities and the total amount expended under the "terms" of the Project since 1998.

In our meeting with Kemal Dervis yesterday, we also briefly discussed the audit. Mr. Dervis suggested that although the Board of Auditors (BOA) Preliminary Review found that UNDP in the DPRK country program did pay in hard foreign currency, staffed its office with DPRK government seconded officials and that DPRK restricted site visits to country projects, that the UNDP Executive Board approved each of the three aforementioned actions and deviations from such rules.

As I indicated, the United States, an Executive Board member, is unaware of any time when such activities were presented and or approved by the Executive Board. Moreover, we have reviewed past Executive Board documents and cannot find any such references. Mr. Dervis indicated that UNDP would provide us with the Executive Board documents that inform of and authorize each of the three aforementioned activities. Therefore, we look forward to receiving such past Executive Board documents from UNDP.

Finally, I look forward to your response to my letter to you of May 14, 2007.

We appreciate all of your help and thank you for your attention to this matter.

Sincerely,

Mark D. Wallace
Ambassador

Excerpt of BDA Record of Wire Transfer from UNDP to Zang Lok Dated April 16, 2002

```
20 /SENDER'S REFERENCE
   602EMG022
23B/BANK OPERATION CODE
   CRED
32A/VAL DTE/CURR/INTERBNK SETTLD AMT
   020416USD29450,
                        2002-04-16
                        US Dollar
                                                29450,00
50K/ORDERING CUSTOMER
   UNDP PYONGYANG DPR OF KOREA
59 /BENEFICIARY CUSTOMER
   /[redacted]
   ZANG LOK TRADING CO LTD
70 /REMITTANCE INFORMATION
   COMPUTER EQUIPMENT AND ACCESSORIES
   (INVOICE ZU/D01)
71A/DETAILS OF CHARGES
   OUR
```

FB

BDA/RE/ OTT/AR/1317/02
Charges: HKD 200 –
Net Amount: USD 29450 –
Corr. Bank: NIL
Value Date: 16/4

Excerpt of BDA Record of Wire Transfer from UNDP to Zang Lok Dated May 28, 2004

[redacted]行有限公司
Banco Delta Asia S.A.R.L.

CREDIT ADVICE

DATE: 28-May-04

摘要 PARTICULARS	金額 AMOUNT
BEING AMOUNT CREDITED TO YOUR ACCOUNT WITH DETAILS AS FOLLOWS:	
OUR REF. NO.: BDA/RE/IR/1844/04.	
FROM: UBS AG LAUSANNE	USD 4,024.15
THEIR REF. NO.: [redacted] LESS OUR CHGS	12.84
BY ORDER OF: UNDP	
MESSAGE : KR000014	
合計 TOTAL:	USD 4,011.31

TO ZANG LOK TRADING CO LTD
[redacted]

We Credited Your Account As Per Details Above.
For Banco Delta Asia S.A.R.L.
[redacted]
Authorized Signatures

O[redacted]1A(02/03)

```
RCVD *    RE/A/0512/-2/04, CONCERNING OUR SWIFT MT103 DATED
RCVD *    11-MAY-04 WITH TRN REF 3411131ZD3798471 FOR USD
RCVD *    4 024.15 VALUE 11-MAY-04
RCVD *    .
RCVD *    /BY ORDER OF/ UNDP    /IN FAVOUR OF/
RCVD *    ZANG LOK TRADING CO., LTD [redacted] AVENUE
RCVD *    [redacted] R/C-C MACAU  MO A/C: [redacted]
RCVD *    PLEASE READ CORRECT BENEFICIARY AS FOLLOWS:
RCVD *    ZANG LOK TRADING CO LTD
RCVD *    [redacted] AVENUE [redacted] R/C C MACAU  A/C:
RCVD *    .[redacted]
```

Permanent Subcommittee on Investigations
EXHIBIT #13

Business Card of IFTJ Employee Dated July 24, 2001

INTERNATIONAL FINANCE AND TRADE JOINT CO.

[redacted] 24/7/01

Head Office:
Av.do Ouv.Arriaga 35,
Edf. Tat Fong 1-B Macau
Tel:(853)363847
Fax:(853)376849
Tlx:88634 IFTC OM

Zhuhai Office:
7/F A,B,No. 16 Building,
Huajing Garden,East Shihua Road,
Jida,Zhuhai,China.
Tel:3355481,3355295 Fax:3355482
Tlx:456317 IFTC CN

Business Card of Employee #2, Reflecting Employment with FTB Dated July 24, 2001

THE REPRESENTATIVE OFFICE OF THE FOREIGN TRADE BANK OF DPR OF KOREA, ZHUHAI, CHINA

[redacted]
Chief Representative

Zhuhai office:7/F A,B,No. 16 Building, Huajing Garden,
East Shihua Road, Jida, Zhuhai,China
Tel: 3355481, 3355295 Fax: 3355482
Mobile: 13802678062
Tlx: 456317 IFTC CN

24/7/01

Permanent Subcommittee on In3estigations
EXHIBIT #14

Letter Identifying Employee 3 as an Employee of International Trade & Finance Joint Co. (IFTC/IFTJ) (Dated July 2003)

FROM : FAX NO. : Jul. 31 2003 12:22PM P1

Pls File at

INTERNATIONAL FINANCE AND TRADE JOINT CO.

Av. da Praia Grande No.405, China Law Building 20-andar-B, Macau
Telex: 88634 IFTC OM
Tel: 373847,373848 Fax: 373849

To : Delta Asia Financial Group – Delta Asia Credit Limited
C.C. : Banco Delta Asia S.A.R.L., Macau – Mr. Edward Ngou
IFTC, Zhuhai – [redacted]
Date : 31st July 2003

Re : New arrangement

Dear Sirs,

Regarding to our arrangement of the Foreign Exchange and Gold/Silver dealing, please kindly to adjust with the following details and effective from 1st August 2003:

The authority of [redacted] has been cancelled and Mr. Kim Tong Chol will instead of him. The dealers are [redacted] and Mr. Kim Tong Chol now.

Thanks for your kind attention in this matter.

Yours truly,

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易公司 MACAU

Authorized Signatures

Permanent Subcommittee on Investigations
EXHIBIT #15a

Excerpt of Fax Identifying Employee 3 as a Senior Member of a Delegation from FTB (Dated September 2003)

DELTA ASIA 14

EN

To: Mr. David Lam

Fr: Vivian Wong

[redacted]

Re: Name List of FTB Delegation to Macau

1. Mr. O Kwang Chol President
2. Ms. Pak Sun Ae General Director
3. Mr. Pae Je Gang Senior Manager
4. [redacted] [redacted]

Permanent Subcommittee on Investigations
EXHIBIT #15b

United Nations Development Programme
The Administrator

22 January 2007

Dear Members of the Executive Board,

In view of the forthcoming Executive Board session on the DPRK country programme on Thursday 25 January 2007 I would like to provide you with some supplementary information to aid the discussion and to allay any concerns which may have emanated from the Wall Street Journal article on DPRK of 19 January 2007.

Please do not hesitate to let me know should you require further clarifications.

Yours sincerely,

Kemal Derviş

Members of the UNDP Executive Board

Permanent Subcommittee on Investigations
EXHIBIT #16

Note for the UNDP Executive Board
UNDP Position on the Democratic People's Republic of Korea (DPRK) Country Programme and Operations

1. UNDP operations in DPRK:

UNDP is implementing the DPRK programme in accordance with the decisions of the entire Executive Board and with the resolution passed recently by the UN Security Council. There are a number of formal safeguards in place to ensure that implementation is in compliance with existing rules and regulations, including the opportunity for the UN Member States to raise audit issues on country programme implementation on the basis of the annual report by the UN Board of Auditors. These procedures serve both as an oversight mechanism and as a safeguard for UN country staff, particularly staff that are performing duties in the most difficult of circumstances.

Circumstances in countries vary tremendously. Yet there is, and should continue to be, a single set of procedures that our operations adhere to. The Administrator and Associate Administrator do not tolerate exceptions to the standard norms in country programme implementation. Since the country programme is owned by the programme country this requires full compliance from the latter's side in order to enable agencies, funds and programmes to do their work. In the particular circumstances that define the options for implementation of the DPRK country programme by UNDP, the fundamental question is whether there is a role for UNDP at all, or for that matter other UN agencies. Whilst thisis a decision for the Executive Board, we would like to emphasize that UNDP staff are in North Korea because, to date, the entire Executive Board has expressed the wish for us to be there.

2. Use of hard currency:

The financial management of our programmes is governed by the UNDP Financial Rules and Regulations. Financial Regulations were approved in the Executive Board decisions 2000/4 and 2005/17. These do not stipulate specific requirements with regard to the utilization of currencies. The decision regarding the choice of currencies utilized is made by the head of each Country Office. This is included in an internal instruction issued by the Director of the Bureau of Management (BOM). The Director of BOM has been delegated authority by the Administrator to issue instructions of this nature. As a result, written waivers regarding utilization of currencies are not required by the UNDP programme in DPRK. In the internal manual on administration and management Country Offices are encouraged to utilize local currencies as circumstances permit, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. Parenthetically current payments in hard currency only refer to Euros.

The UNDP Executive Board at its regular session in 2005 on 28 January 2005 took note of the current DPRK Country Programme (2005-2006) in its decision 2004/41 without a specific reference to the utilization of hard currency, generally or by category.

There is not formal requirement to pay local expenditures exclusively in local currency, although Country Offices are encouraged to utilize local currencies as circumstances permit.

To further clarify the issue of the use of hard currency: either we pay our local staff and contractors in Euros or we exchange Euros for North Korean Won via the central bank. To mitigate possible misperceptions about paying euros directly to national staff, we decided to change our policies in mid-December and will no longer be making direct payments in hard currency to government, national partners, local staff and local vendors as of 1 March 2007. However, the fact remains that UNDP, and any other international entity working in DPRK, must purchase local currency from the DPRK Central Bank.

3. Recruitment of local staff:

The local situation in DPRK is the same for UNDP as for diplomatic missions, international organizations and NGOs in DPRK: we are subject to service agreements with the government on national staff provision. The pertinent point is whether we would want to continue this situation. It is clear that we do not want this practice to continue as of mid-December we have decided to discontinue sub-contracting of national staff via government recruitment and we have informed the DPRK government of this decision.

4. Content of the proposed country programme in DPRK:

The country programme for DPRK before you was based on the assumption of a transition to a stage of institutional development. However, in the given circumstances, we would be ready to further reconsider the content of the programme, and make necessary adjustments to the contents of the proposed programme, namely to confine our support to more narrowly circumscribed human development objectives and submit this for consultation with the DPRK government.

5. Oversight of the programme:

On the basis of the most recent audits conducted in 1999, 2001 and 2004 we have no reason to believe that our programmes were subverted to fund non-legitimate activities.

In terms of oversight of the programme in DPRK over the years, UNDP has put in place audits and has made continuous adjustments to tighten our systems and controls while working in difficult circumstances. In addition additional measures have been put in place to strengthen monitoring and evaluation of the DPRK country programme.

Out of eleven ongoing projects that are nationally executed, nine are, de facto, directly executed by UNDP in the form of country office support to NEX. Accordingly, UNDP financial, procurement and personnel policies have been applied to their implementation, including a review by the Local Contracts, Assets and Procurement Committee as necessary. For two NEX projects, advances have been given on a quarterly basis, and reporting has been received from project authorities on the amounts spent as per UNDP programme procedures. No advances have been made for any other ongoing NEX project. All advances to the government have been discontinued as of January 2007. Importantly the total of transfer payments for 2005/06 is, to be precise, US$337,701.28.

Senior management recognize the need for increased caution in the post-sanctions environment and we therefore intend to seek confirmation that the future country programme would be in accordance with Security Council Resolution 1718.

There has been a noticeable improvement in the implementation of audit recommendations between 1999 and 2004. The internal auditors' count shows that meaningful follow-up was given to the many audit recommendations, with a remarkable decrease in the apparent need for recommendations in 2004 as opposed to the high numbers in 1999 and 2001

Status Summary	Implementation of Recommendations for Audit Report RCM0018* (issued Aug 1999) as at 30 June 2000	Implementation of Recommendations for Audit Report RCM0081* (issued Jul 2001) as at December 2006	Implementation of Recommendations for Audit Report RCM0148 (issued Sept 2004) as at December 2006
Implemented	17	27	8
In progress	11	7	4
Not implemented	3	3	1
Unclear	N/A	0	0
Not applicable	N/A	1	1
Total no. recommendations	31	38	14

* the audits conducted in 1999 and 2001 were carried out by the audit firm KPMG (based in Malaysia

While this does not indicate that everything is perfect, it underscores the serious effort made to ensure effective oversight , despite a less than conducive environment. Moreover the recommendations have identified fundamental issues that needed to be addressed beyond the existing framework of cooperation with DPRK, i.e. direct payments in hard currency to government, national partners, local staff and local vendors and sub-contracting of national staff via government recruitment. As indicated above we have decided to discontinue both practices.

Consistent with UN system-wide policies and practices as articulated in May 2005 by the UN Chief Executives' Board's High Level Committee on Management, internal audit reports are important management tools for Executive Heads and therefore confidential. The United Nations Board of Auditors, has full access to all internal audit reports, and includes their findings as needed in its publicly-available annual report to the General Assembly. However, we are currently in discussion with the UNDG ExCom heads on the most appropriate way forward to ensure increased direct access to audits findings for Board Members.

6. UNDP programme and office disbursements in DPRK

Different media references have been made on the total size of UNDP's programme and office expenditure in DPRK, some widely exaggerated. On the basis of data that have been provided to date we can say that over the period of the past ten years the average of annual UNDP disbursement has been around $3.6 million per year. This is, on average, approximately 50% less than the ceilings approved by the Board which further indicates the high complexity of operating in DPRK.

As of 21 January 2007 the following breakdown was available:

UNDP DPR KOREA Country Programmes

Programme Cycle	Approved Programme (in US$000)	Actual Disbursements (in US$000)
1997-2000	17.344	15.959
2001-2004	19.783	6.696
2005-2006	22.220	6.451*
	Total: $59.347 m Board Approved Programmes	Total Amount delivered $29.106 m

* Preliminary figures in 2006: budgets are not yet closed

UNDP DPRK Programme and Office Support Budget Disbursements*

	Total Programme	Office Support Budget	Total
1997	5,895,584	**	5,895,584
1998	6,374,049	773,042	7,147,091
1999	1,596,522	815,255	2,411,777
2000	2,093,103	500,339	2,593,442
2001	1,514,645	447,930	1,962,575
2002	1,829,752	667,170	2,496,922
2003	2,259,861	732,680	2,992,541
2004	1,092,000	903,000	1,995,000
2005	3,169,000	426,000	3,595,000
2006 EST	3,282,000	1,046,000	4,328,000
Total	29,106,516	6,311,416	35,417,932

*includes disbursements outside of DPRK.
** full data still to be confirmed: assumed to be approximately the same magnitude as 1998

7. The way forward

In order to fully review our operations in DPRK we would welcome a full independent and external audit of the current programme in DPRK within the overall framework and possibly in addition to what will be outlined by Secretary-General Ban Ki-moon regarding the Funds and Programmes more generally. We would like to suggest that the Executive Board provides us with the necessary guidance on the modalities of such an audit at the most appropriate time.

22 January 2007

FEB.22'2007 10:47 212 906 5778 UNDP/OFFICE OF THE ADMINISTRATOR #3544 P.002/002

RECEIVED
Cic-59
FEB 13 2007
GAA-055
EXECUTIVE OFFICE OF THE SECRETARY-GENERAL

조선민주주의인민공화국
유엔주재 상임대표부

Democratic People's Republic of Korea
PERMANENT MISSION TO THE UNITED NATIONS
820 Second Avenue, 13th Floor, New York, NY 10017
Tel: (212) 972-3105/3106 Fax: (212) 972-3154

New York, February 13, Juche 96(2007)

Excellency,

I have the honour to refer to the external audit on the question of UN agencies' aid projects for the Democratic People's Republic of Korea (DPRK) and clarify the views on it.

The DPRK has maintained good relations of cooperation with different UN agencies for several decades.

It is well-known the aid projects of UN agencies including the United Nations Development Programme (UNDP) in the DPRK have been carried out in a fair and transparent way, in conformity with the UN regulations. Therefore, we do not mind whether the external audit is being done or not.

However, the audit was proposed at the time when the US alleged the misuse of UNDP aid funds in the DPRK and we can not but doubt that the motive and purpose of audit are strictly in line with the US hostile maneuvers against the DPRK.

Last January, from dirty political motives, the US fabricated lies that the DPRK might have used the UNDP aid funds for the development of nuclear weapons without foundation and demanded investigation on the UNDP aid activities in the DPRK.

As the UNDP has denied, the US allegations are sheer fiction aimed at politicizing international aid to the DPRK.

We have already made clear that it is the DPRK's consistent position to continue the cooperation with the UN agencies. But if the above mentioned external audit is to serve the US attempt to politicize international aid to the DPRK, we will not tolerate it and the consequences will be severe.

I should be grateful if you would have the present letter circulated as a document of the General Assembly under agenda item 53 "Sustainable development" and item 58 "Operational activities for development: operational activities for development of the United Nations System".

Office of the Administrator
Correspondence
Log no: 38514 Date 15/2
To: GE/AM
☐ Draft reply for A/AA
☐ Direct reply with copy to OA
☒ Direct action
Deadline:
OA Focal Point:
cc: OL/LO FG/HR

Tak Gil Yon
Ambassador
Permanent Representative

H.E. Mr. Ban Ki-moon
Secretary-General
United Nations

Redacted By
Permanent Subcommittee
on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #17

Transaction Details for TRN: 4039900233fc Region: US

= Redacted by the Permanent Subcommittee on Investigations

Instruction Date:	8/21/2002
Payment Date:	8/21/2002
Transaction Amount:	$299,980.00
Transaction Type:	CHC
Customer Swift ID:	
Debit Fin Entity:	01
Credit Fin Entity:	01
Credit Reference:	RE65138/02
Debit Reference:	[redacted]
Sender's ID:	
Bene Flag:	
Order Party:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
Order Bank:	BANCO DELTA ASIA S.A.R.L. MACAU BRANCH MACAU MACAU
Debit Party:	[redacted] WACHOVIA NY INTL I.C.S. CLEARANCE ACCOUNT 180 MAIDEN LANE NEW YORK NY 10038
Details of Payment:	B O NATIONAL COORDINATING COMMITTEEFOR UNDP,REF.TTB62-144 MSG:PAYMENT FOR PURCHASE OF BUILDING (CANADA)
Credit Party:	[redacted] PERMANENT MISSION OF THE DPR OF KOR TO THE UN 820 SECOND AVENUE 13TH FL NEW YORK NY 10017

Permanent Subcommittee on Investigations
EXHIBIT #18a

Transaction Details for TRN: 4862900242fc Region: US

Instruction Date: 8/30/2002
Payment Date: 8/30/2002
Transaction Amount: $299,980.00
Transaction Type: CHC
Customer Swift ID:
Debit Fin Entity: 01
Credit Fin Entity: 01
Credit Reference: RE65352/02
Debit Reference: [redacted]
Sender's ID:
Bene Flag:
Order Party: INTERNATIONAL FINANCE N TRADE JOINT CO.
Order Bank: BANCO DELTA ASIA S.A.R.L.
MACAU BRANCH
MACAU MACAU
Debit Party: [redacted]
WACHOVIA NY INTL
I.C.S. CLEARANCE ACCOUNT
180 MAIDEN LANE
NEW YORK NY 10038
Details of Payment: B O NATIONAL COORDINATING COMMITTEEFOR UNDP, REF.TTB62-150 MSG:PAYMENTFOR PURCHASE OF BUILDING(CANADA)
Credit Party: [redacted]
PERMANENT MISSION OF THE DPR OF KOR TO THE UN
820 SECOND AVENUE 13TH FL
NEW YORK NY 10017

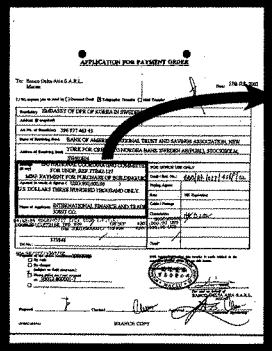
[redacted] = Redacted by the Permanent Subcommittee on Investigations

Transaction Details for TRN: 4289100252fc Region: US

Instruction Date:	9/9/2002
Payment Date:	9/9/2002
Transaction Amount:	$399,980.00
Transaction Type:	CHC
Customer Swift ID:	
Debit Fin Entity:	01
Credit Fin Entity:	01
Credit Reference:	RE65514/02
Debit Reference:	[redacted]
Sender's ID:	
Bene Flag:	
Order Party:	INTERNATIONAL FINANCE N TRADE JOINT CO.
Order Bank:	BANCO DELTA ASIA S.A.R.L. MACAU BRANCH MACAU MACAU
Debit Party:	[redacted] WACHOVIA NY INTL I.C.S. CLEARANCE ACCOUNT 180 MAIDEN LANE NEW YORK NY 10038
Details of Payment:	B O NATIONAL COORDINATING COMMITTEEFOR UNDP, REF,TTB62-155 MSG:PAYMENTFOR PURCHASE OF BUILDING(CANADA)
Credit Party:	[redacted] PERMANENT MISSION OF THE DPR OF KOR TO THE UN 820 SECOND AVENUE 13TH FL NEW YORK NY 10017

= Redacted by the Permanent Subcommittee on Investigations

NORTH KOREA TRANSACTION USING I.F.T.J.


APPLICATION FOR PAYMENT ORDER

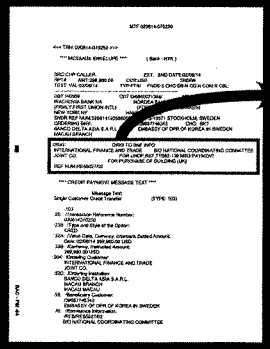
Banco Delta Asia Application

Message (if any) B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127 MSG:PAYMENT FOR PURCHASE OF BUILDING(UK)

Amount in words & figures (USD.300,000.00)

U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.

Name of Applicant INTERNATIONAL FINANCE AND TRADE JOINT CO.



Bank of America Confirmation

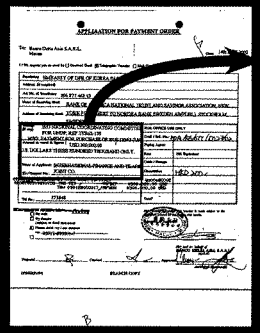
ORIG: INTERNATIONAL FINANCE AND TRADE JOINT CO.

ORIG TO BNF INFO: B/O NATIONAL COORDINATING COMMITTEE FOR UNDP,REF.TTB62-139 MSG:PAYMENT FOR PURCHASE OF BUILDING (UK)

Permanent Subcommittee on Investigations

EXHIBIT #18b

NORTH KOREA TRANSACTION USING I.F.T.J.


APPLICATION FOR PAYMENT ORDER

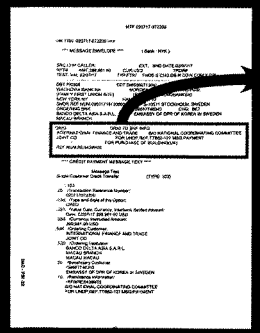
Banco Delta Asia Application

Message (if any) B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-139 MSG:PAYMENT FOR PURCHASE OF BUILDING(UK)

Amount in words & figures (USD.300,000.00)

U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.

Name of Applicant INTERNATIONAL FINANCE AND TRADE JOINT CO.



Bank of America Confirmation

ORIG: INTERNATIONAL FINANCE AND TRADE JOINT CO.

ORIG TO BNF INFO: B/O NATIONAL COORDINATING COMMITTEE FOR UNDP,REF.TTB62-127 MSG:PAYMENT FOR PURCHASE OF BUILDING (UK)

UNDP PYONGYANG
FILE: prk 41524
DATE: 13 MAR 2007
ACTION
RR
DRR(P)
DRR(O)
ARR(P)
ACTION COMPLETED

P.1

ELSINGOR SA

TEL: 86 10 6508 4708 FAX: 86 10 6591 2102 E-MAIL: wjhelevk@public.bta.net.cn

United Nations Development Programme
UNDP DPRK
Mr Timo Pakkala., Resident Representative,
Munsudong, Pyongyang, PO BOX27
Democratic People's Rep of Korea
Tel:+8502 381 7566, Fax:+8502 381 7587

Packing list

Date : 09th March 2007,

Ref ; PO.PRK 10-0000000748

Packing list number : B-0703013, 1 Page,

We have purchased and are delivering, as per your Purchase Order number PRK 10- 0000000748 received by e-mail dated 18/12/2006 the following publication items :

List of Publications order in your e-mail dated Monday 18 December 2006 :

1. Alexander T.J.Lennon & Camille Eis (ed), Rethinking Rogue States, 2004, MIT Press
2. Alexander T.J.Lennon (ed), Contemporary Nuclear Debates, 2002, MIT Press.
3. Joseph Cirincione, Jon B.Wolfsthal, & Miriam Rajkumar, Deadly Arsenals: Nuclear, Biological & Chemical Threats, Carnegie Endowment for International Peace,2005; David M.Malone,The international struggle over Iraq. Politics in the UN Security Counsil 1980–2005.06.
4. Chae-Jin Lee, The Troubled Peace: U.S. Policy and the Two Koreas. Johns Hopkins U.Press, 05
5. Morton Abramowitz & Stephen Dorsworth, Chasing the Sun Rethinking East Asian Policy. Century Foundation Press,06.
6. Edward Friedman & Bruce Gilley (eds.), Asia's Giants: Comparing China & India. Palgrave Macmillan, 05.
7. The Center for Strategic & International Studies & the Institute for International Economics, China: the balance sheet, What the World needs to know now about the emerging Superpower, 2006 Public Affairs
8. Peter W Galbraith, The End of Iraq. How American incompetence created a War Without End Simon & Schuster,06
9. Jacques E.C.Hymans, The Psychology of Nuclear Proliferation: Identity, Emotions, and Foreign Policy.Cambridge U.Press,06
10. Thomas E. Ricks, Fiasco. The American Military Adventure in Iraq, Penguin Press, 06.
11. Francis Fukuyama (ed), Nation-Building Beyond Afghanistan & Iraq Johns Hopkins U.Press, 05
12. James Risen, State of War. The Secret History of the CIA & the Bush Administration, Free Press, 06.
13. Keith A.Hansen, The Comprehensive Nuclear Test Ban Treaty, An Insider's Perspective, Stanford U.Press, 06
14. Eric Terzuoli,NATO & Weapons of Mass Destruction:Regional Alliance, Global Threat, Routledge, 05.
15. Arne Westad, The Global Cold War: Third World Interventions & the Making of Our Times, Cambridge U.Press 05
16. Sugata Bose, A Hundred Horizons:The Indian Ocean in the Age of Global Empire, Harvard U.Press,06
17. David Shambaugh (ed), Power Shift: China & Asia's New Dynamics, U California Press,06.
18. Stephen M. Walt, Taming American Power: the Global Response to U.S Primacy, Norton, 2005.
19. Simon Chesterman, Michael Ignatieff, & Ramesh Thakur (ed), Making States Work: State Failure & the Crisis of Governance, United Nations U. Press
20. Rakesh Rajagopalan, Second Strike: Arguments About Nuclear War in South Asia, Penguin Books India, 05
21. Ho-Won Jeong, Peace Building in Post-conflict Societies. Strategy and Process, Lynne Rienner, 2005
22. Andre Kathryn Talentino, Military Intervention After the Cold War: The Evolution of Theory & practice,Ohio U Press, 05
23. Jock Covey, Michael Dziedzic and Leonard Hawley (eds), The Quest for Viable Peace: International Intervention and Strategies for Conflict Transformation, U.S. Institute of Peace Press, 2005
24. Avery Goldstein, Rising to the Challenge. China's Grand Strategy & International Security, Stanford U. Press
25. Miroslav Nincic, Renegade Regimes:Confronting Deviant Behavior in World Politics. Columbia U.Press 05
26. Hoyuzumi, Philip B. and Juliette N. Kayyem. Cambridge, Mass : The MIT Press. Sept 05.
27. Mansfield, Edward D. & Jack Snyder. *Electing to Fight...Why Emerging Democracies Go to war*.Cambridge:The MIT Press. Sept 05
28. Thomas Graham, Disarmament Sketches: Three Decades of Arms Control & International Law
29. Lawrence S.Wittner,Toward Nuclear Abolition: A History of the World Nuclear Disarmament Movement, 1971 to the present (Struggle against the bomb,Vol 3).

For above list of publications packed in : 1 carton of Total Gross Weight : 17.80kg & volume 0.09m3

All publications to be delivered DES UNDP Pyongyang (or UNDP Beijing Office).

We thank you for your confidence & good cooperation.

Permanent Subcommittee on Investigations
EXHIBIT #19

ON 15:41 [TX/RX NO 5917] 001

May 30, 2007
List of Books UNDP Procured for the DPRK in March 2007

1. Reshaping Rogue States, Alexander T. J. Lennon, 2004

2. Contemporary Nuclear Disputes, Alexander T. J. Lennon, 2002

3. Deadly Arsenals: Nuclear, Biological & Chemical Threats, Carnegie Endowment for International Peace, Joseph Cirincione, 2005

4. The International Struggle over Iraq, Politics in the UN Security Council, David Malone, 2005

5. The Troubled Peace: US Policy and the Two Koreas, Chin-Jin Lee, 2006

6. Chasing the Sun: Rethinking East Asian Policy, Morton Abramowitz, 2006

7. Asia's Giant: Comparing China & India, Edward Friedman, 2006

8. China: The Balance Sheet; What the World Needs to Know about the Emerging Superpower, The Center for Strategic and International Studies and the Institute for International Economies, 2006

9. The End of Iraq: How American Incompetence Created a War without End, Peter W. Galbraith, 2006

10. The Psychology of Nuclear Proliferation: Identity, Emotions and Foreign Policy, Jacques Hymans, 2006

11. Fiasco: The American Military Adventure in Iraq, Thomas Ricks, 2006

12. Nation-Building: Beyond Afghanistan and Iraq, Francis Fukuyama, 2005

13. The Secret History of the CIA and the Bush Administration, James Risen, 2006

14. The Comprehensive Nuclear Test Ban Treaty: An Insiders Perspective, Keith Hansen, 2006

15. The Global Cold War: Third World Interventions and the Making of our Times, Anne Westad, 2005

May 30, 2007
List of Books UNDP Procured for the DPRK in March 2007

16. A Hundred Horizons: The Indian Ocean in the Age of Global Empire, Sugat Bose, 2006

17. Power Shift: China and Asia's New Dynamics, David Shambaugh, 2006

18. Taming American Power: the Global Response to US Primacy, Stephen Walt, 2005

19. Making States Work: State Failure and the Crisis of Governance, Simon Chesterman

20. Second Strike: Arguments about Nuclear War in South Asia, Rajesh Rajagopolan, 2005

21. Peace-building in Post Conflict Societies Strategy and Process, Hu-Won Jeong, 2005

22. Military Intervention after the Cold War: The Evolution of theory and Practice, Andra Kathryn Talentino, 2005

23. The quest for visible peace. International Intervention and Strategies for Conflict Transformation, Jock Covey, 2005

24. Rising to the Challenge: China's Grand Strategy and International Security, Avery Goldstein

25. Renegade regimes: Confronting Deviant Behavior in World Politics, Miroslav Nincie, 2005

26. [Article or Book] by Phillip B. Hoyman, the MIT Press, 2005

27. Electing to Fight: Why Emerging Democracies Go to War, Edward Mansfield, 2005

28. Three Decades of Arms Control and International Law, Thomas Graham

29. Toward Nuclear Abolition. A History of the World Nuclear Disarmament Movement, Lawrence Wittner, 1971

RESPONSES TO SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM

SENATOR CARL LEVIN
SENATOR NORM COLEMAN

to

THE HONORABLE ZALMAY KHALILZAD

Permanent Representative of the United States of America
to the United Nations

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON

UNITED NATIONS DEVELOPMENT PROGRAM:
A CASE STUDY OF NORTH KOREA

January 24, 2008

1. **In your testimony before the Subcommittee, you noted that the United States provides roughly $3 billion annually to UN Funds and Programs, which includes UNDP. Under the Foreign Assistance Act of 1961, 22 U.S.C. 2227, the Secretary of State must certify annually that these funds are being spent efficiently and transparently. What metrics does the Department of State employ to determine that U.S. taxpayer funds are spent in accordance with the statute?**

   RESPONSE: We have long monitored the management of individual UN organizations, including the expenditure of donor contributions. In 2007, the U.S. government launched the United Nations Transparency and Accountability Initiative (UNTAI) that identified recent reforms approved for the UN Secretariat that should be implemented within the Funds and Programs and Specialized Agencies to address weaknesses in those organizations. Specifically, this initiative focuses on eight areas in which the United States and other member states can exercise greater oversight, particularly in the areas of finance and budget. For instance, the State Department now seeks to ensure that UNDP and other UN entities provide public access to important budgetary, financial, and procurement information. With access to this previously undisclosed information, the State Department will be better able to monitor UNDP and other UN organizations in order to have reasonable assurance that donor funds are being used efficiently, effectively, and appropriately.

Permanent Subcommittee on Investigations
EXHIBIT #20

2. **How does the Department of State determine that programs administered by UNDP contribute to human development? In your response, please set forth the metrics used by the Department of State in making this determination.**

RESPONSE: We rely on several means to determine the effectiveness of UNDP's programs, including:

- OMB's Program Assessment Rating Tool (PART), which measures UNDP's performance at the global level, using several indicators -- democratic governance, public administration reform and anti-corruption, conflict prevention and peace building, and private sector development (details attached). We are in the process of updating the indicators and measures as part of our ongoing efforts to refine this tool.

- Based on an Executive Board decision in January 2006, UNDP management is required to provide country-level program performance data and make it publicly available. UNDP is still in the process of implementing this Board directive and we expect to see the measurable results promised by UNDP management during the current year.

- Evaluations of completed country programs and projects. UNDP currently does not perform end-of-cycle program evaluations, but in response to our requests is moving in this direction.

PART Performance Measures

Type of Program: Block/Formula
Name of Program: UNDP (PART)
Program ID:
Agency: Department of State
Bureau: Bureau of International Organization Affairs
Budget Year: 2006

DO NOT *CUT* & PASTE CELLS ON THIS TAB! Move data by *copy*& paste, typing over, or sorting.

If this box turns RED, UNDO (Ctrl+Z) immediately! →

"The term "Goal" as used in the PART refers to the combination of Measure, Time Frame and Target.

Measure #	Measure Term	Measure Type	Measure*	Explanation of Measure	Measure New, Under Dvlpmt, or Under Revision?	Time Frame*	Target*	Actual	Baselr/Targ under dvlpmt?
(Example) 1	Annual	Outcome	Percent of businesses that remain viable 3 years after assistance	THIS IS AN EXAMPLE.					
(Example) 1.1						2004	Baseline	0.45	
(Example) 1.2						2005	0.55		
(Example) 1.3						2006			UD
1	Annual	Efficiency	"Operational Support Costs" as a Percentage of Total Costs						
1.1						2002	Baseline	12.70%	
1.2						2003		12.00%	
1.3						2004	11.50%		
1.4						2005	11.00%		
1.5						2006	11.00%		
1.6						2007	11.00%		
2	Long-term	Outcome	Percentage of countries where annual targets were fully achieved out of the total number of countries (92) where UNDP provided support for democratic governance goals.						
2.1						2002	Baseline	63%	
2.2						2003		Per OMB - no data required on an annual basis.	
2.3						2004	Per OMB - no data required on an annual basis.		
2.4						2005	Per OMB - no data required on an annual basis.		
2.5						2006	Per OMB - no data required on an annual basis.		
2.6						2007	67%		
3	Annual	Output	Percentage of countries where annual targets were fully achieved out of total number (59) of countries where UNDP provides support to public administration reform and anti-corruption.						
3.1						2002	Baseline	62%	

3.2				2003		78% Note: Since 2003 was the end-year of the multi-year funding framework (MYFF) cycle this figure shows the percentage of countries that reported full achievement of planned outcomes during 2000-2003.
3.3				2004	85% Note: Projections for targets for 2004-2007 are made on the basis of projected achievement of targets for each year using 2002 annual data as a baseline. They appear lower than the 2003 figure cited due to the multi-year character of the 2003 data as noted above.	
3.4				2005		65%
3.5				2006		66%
3.6				2007		69%
4	Annual	Output	Percentage of countries where annual targets were fully achieved out of the total number (36) of countries where UNDP provides support to conflict prevention and post-conflict building.			
4.1				2002	Baseline	81% Note: This figure reflects percentage of countries that reported positive progress towards multi-year outcomes in the reporting year.
4.2				2003		83% Note: Since 2003 was the end-year of the multi-year funding framework (MYFF) cycle, this figure shows the percentage of countries reporting full achievement of outcomes during 2000-2003.
4.3				2004	65% Note: Projections for targets for 2004-2007 are made on the basis of historical trends. The 2002 baseline was not used as the data stands out of the normal range as compared to trends observed over a longer period of time.	
4.4				2005		66%
4.5				2006		67%
4.6				2007		68%
5	Annual	Output	Achievement of annual milestones towards private sector development			

5.1	2002	Baseline	N/A.
5.2	2003		UNSYG appointed the Commission on Private Sector and Development. UNDP served as the Commission Secretariat.
5.3	2004	Commission issues report; launch 5 public events to showcase and disseminate the report and recommendations; engagement of country level dialogue in at least 5 countries; and engagement in at least 2 key partnerships with private sector to drive small and medium-size enterprise (SME) development.	
5.4	2005	Launch 5 public events to showcase and disseminate the Commission report and recommendations, engagement of country level dialogue in at least 20 countries; engagement in at least 7 key partnerships with private sector to drive SME development; and launch pilot programs in at least 3 countries.	
5.5	2006	Engagement of country level dialogue in 40 countries; engagement in at least 12 key partnerships with private sector to drive SME development; substantial results demonstrated in at least 10 countries; and launch 3 public events showcasing UNDP activities and their impact on the ground.	
5.6	2007	Engagement of country level dialogue in 60 countries; engagement in at least 17 key partnerships with private sector to drive SME development; substantial results demonstrated in at least 20 countries; and launch 3 public events showcasing UNDP activities and their impact on the ground.	

3. **The report released by the Subcommittee determined that the North Korean government engaged in deceptive financial practices by transferring close to three million dollars of its own funds out of North Korea into western financial institutions using a bank account established to receive and disperse UNDP funds intended for development projects, and by referencing UNDP in the wire transfer documents. Moreover, the report concluded that UNDP paid funds directly to an entity known as the International Finance and Trade Joint Company, a Macau-based entity that appears to have acted as a funding conduit for the North Korean government.**

   Please explain what measures the Department of State will take to ensure that such conduct is not recurring either in North Korea or elsewhere, under the guise of UN activity, including UNDP.

   RESPONSE: Since March 2007, UNDP has not been operating programs in North Korea. As a result of the information uncovered by various U.S. inquiries into UNDP activities in North Korea, including the Permanent Subcommittee on Investigations Report, the State Department has increased its oversight of UN activities around the world. As part of these oversight efforts, the State Department has begun to insist that the UN Funds, Programs and Specialized Agencies, including UNDP, assert more control and oversight in relation to financial transactions associated with implementation of country programs and make important programmatic information such as financial, budgetary and procurement information available to UN member states. These measures, in particular increased transparency, will help to discourage attempts by countries to use the UN name and/or logo for deceptive and/or irregular transactions by providing the U.S. government and other Members of the Executive Board with greater insight into UN programmatic activities.

4. **Section 668 of the Consolidated Appropriations Act of 2008 mandates that the Department of State certify to Congress that UNDP has provided adequate access to information concerning UNDP's activities and has instituted an effective whistleblower protection program.**

   Please explain the following:

   a) **How will the Department of State measure UNDP's compliance with requests for information concerning UNDP's activities? In your response, please set forth the metrics that will be used by the Department of State in making this determination.**

   RESPONSE: In 2007 the U.S. government launched the United Nations Transparency and Accountability Initiative (UNTAI) that identifies reforms in the UN Secretariat that should be applied within the Funds and Programs and Specialized Agencies to address weaknesses in those organizations. Specifically this initiative addresses eight areas that require action by UNDP and in regard to which the U.S. and other member states can exercise greater oversight. UNDP Management has been notified of this initiative and the importance which the U.S. attaches to it. In May 2007, February 2008, and again in July 2008, the Department inquired with UNDP what action it was taking in regard to these eight areas, including specifically the level of public access to financial and budgetary information. The State Department has since developed criteria for public access to information which will serve as a metric for measuring UNDP's progress and compliance in this regard. UNDP must demonstrate that it is providing free and open public access to relevant information related to the Organization's operations, including program and budget documents, information on procurement activities and administrative policies. In short, this information should be easily available on the Internet. The State Department will require that UNDP's regulations, rules and directives concerning management, financial and personnel practices are also readily available to the public.

   In addition, the criteria provide for the disclosure to Member States of internal audit and oversight reports upon request, in their original and unedited form. In October 2007, the UN's Chief Executive Board (CEB) endorsed the disclosure of internal audit reports but noted that such policies should not be applied retrospectively. The Department of State has taken the position that the release of prior reports would help a Governing Body examine specific issues brought to its attention. As UN entities proceed with implementing the CEB recommendation, the Department of State continues to seek to broaden the recommendation of the CEB and the policies of UNDP and others to support disclosure of prior reports.

b) How will the Department of State measure UNDP's compliance with the requirement that it establish and comply with an effective whistleblower protection program? In your response, please set forth the metrics that will be used by the Department of State in making this determination.

RESPONSE: Similarly, the State Department has developed criteria to measure UNDP's progress and compliance with the requirement that it establish and comply with an effective whistleblower protection program. UNDP must implement effective whistleblower protections against retaliation for reporting misconduct and/or cooperating with the internal oversight function. These policies must be well known to staff and conform to best practices to be acceptable. Staff must have an effective mechanism for recourse if retaliation is taken or threatened. In this regard, UNDP must have an independent ethics officer who is responsible for enforcing the Organization's whistleblower protections. The State Department is seeking periodic updates with UNDP in this regard.

#

RESPONSES TO SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR TOM COBURN
to
THE HONORABLE ZALMAY KHALILZAD
United States Ambassador to the United Nations

HEARING ON
UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

1. **North Korea states it transferred money through U.N. accounts in order to avoid sanctions. What management and oversight reforms will the State Department mandate for the Bureau of International Organization Affairs to prevent U.S. contributions to the UNDP and other multi-lateral entities from violating U.S. sanctions?**

   What preventative, risk-management oversight does the Bureau of International Organization Affairs conduct in order to avoid funding entities, such as the UNDP, that lack internal controls or other measures to prevent terror financing and the enrichment of terror sponsoring states?

   RESPONSE: In 2007 the U.S. government launched the United Nations Transparency and Accountability Initiative (UNTAI) that identified reforms in the UN Secretariat that should be applied within the Funds and Programs and Specialized Agencies to address weaknesses in those organizations. Specifically this initiative addresses eight areas that require action by UNDP and these other organizations in regard to which the U.S. and other member states can exercise greater oversight, particularly in the areas of finance and budget. For instance, the State Department now seeks to ensure that UNDP and other UN entities provide public access to important budgetary, financial, and procurement information, which could include information regarding UN bank accounts, if necessary. With access to this previously undisclosed information, the State Department will be able to better evaluate UNDP and other UN programs in order to ensure that donor funds are being used efficiently, effectively and appropriately.

   In addition, the State Department has made disclosure of internal audit reports by UN entities – an important internal control - a requirement for acceptable oversight and risk-management measures. When USUN was given access to the internal audit reports for the UNDP program in North Korea, USUN discovered numerous programmatic irregularities that were previously undisclosed to Member States.

Permanent Subcommittee on Investigations
EXHIBIT #21

Regular access to internal audit reports should deter or reveal similar irregularities, if they exist, and enable the State Department to bring these irregularities to the attention of UN management for corrective action.

2. **Three weeks prior to the hearing, the Permanent Subcommittee on Investigations sought guidance on declassifying a paraphrased characterization of a sentence in a classified State Department cable. The cable contains information from a different but relevant agency. The Subcommittee received clearance from the relevant agency to use the paraphrased characterization of the cable since it did not reveal sources or methods. Ambassador Chris Hill decided to classify this characterization, but the Ambassador decided to not inform the Subcommittee of his decision until it was too late to appeal the decision and include the information in the Subcommittee report. Ambassador Hill's actions undermined the efforts of the subcommittee to demonstrate how U.S. tax dollars were used by UNDP to fund terrorist entities of the North Korea regime. Why did the State Department classify something a relevant agency said should not be classified, and why did the State Department wait until the late afternoon on Friday, January 18th, 2008, when most Senators had already traveled home, to inform the subcommittee of its decision? Please discuss this with Ambassador Hill before answering the question.**

   RESPONSE: The State Department reviewed the request, cable, and the sentence that the relevant agency proposed to declassify. In the end, we opposed declassification of the cable in whole or in part as well as the release of the proposed sentence, as it reported foreign government information that was conveyed in confidence to the U.S. government in the course of official bilateral discussions. Because the unauthorized disclosure of this information could reasonably be expected to cause serious damage to our foreign relations, the need for classification of this information remains unchanged.

   The timing of our response was not deliberate as we needed a fair amount of time to come to a decision internally and in coordination with the inter-agency on a proper response.

3. **As you know, U.S. law imposes sanctions on entities that finance terrorism. Should U.S. officials be held liable under these laws for giving U.S. funds to the UNDP after the Administration learned UNDP gave funds to the financier of North Korea's weapons programs as well as gave funds directly to the regime without any controls?**

RESPONSE: We have long monitored the management of individual UN organizations, including the expenditure of donor contributions. In 2007, the U.S. government launched the United Nations Transparency and Accountability Initiative (UNTAI) that identified recent reforms approved for the UN Secretariat that should be implemented within the Funds and Programs and Specialized Agencies to address weaknesses in those organizations. Specifically, this initiative focuses on eight areas in which the United States and other member states can exercise greater oversight, particularly in the areas of finance and budget. For instance, the State Department now seeks to ensure that UNDP and other UN entities provide public access to important budgetary, financial, and procurement information. With access to this previously undisclosed information, the State Department will be better able to monitor UNDP and other UN organizations in order to have reasonable assurance that donor funds are being used efficiently, effectively, and appropriately.

In response to action initiated by the U.S. in UNDP's Executive Board, UNDP terminated its programs in North Korea as of March 1, 2007, because the DPRK government refused to comply with UNDP rules for operations of country programs.

In recent years, particularly during the past year, we have been pressing UNDP management to improve its performance and take corrective action. Among other steps, we have requested UNDP management to make its audit and program performance information available to the UNDP Board and the public, to improve programming and evaluation systems to ensure that donor resources are used effectively and that program results are properly evaluated and reported.

UNDP is an important multilateral vehicle for advancing U.S. foreign policy objectives, including assisting the poor in over 130 countries in the world. UNDP works in several areas that are foreign policy priorities for the U.S., such as democratic governance and post-conflict reconstruction and stabilization. It is, therefore, important for us to participate in the organization and support its mission, including providing funding.

a. **Is it appropriate to waive U.S. sanctions in support of UNDP exporting dual-use technology to state sponsors of terror or providing funds (cash or money transfers) directly to entities under U.S. sanctions? If so, please provide recent examples.**

RESPONSE: We are not aware of recent cases where UNDP may have needed a waiver of U.S. sanctions to export technology or funds to North Korea.

b. **Should the UNDP be designated as a terrorist entity since it provides financial, material, and technological support for the non-humanitarian and non-development activities of state sponsors of terror?**

RESPONSE: The United States does not consider the United Nations Development Program to be an entity that finances terrorism. We do not consider the provision by UNDP of funding for development projects in North Korea to constitute the financing of terrorism.

4. **Do you support withholding U.S. funds to the UNDP until the UNDP Administrator cooperates with U.S. investigators by providing unfettered access to all UNDP records that are hidden in U.N. offices in North Korea?**

RESPONSE: The UN Board of Auditors conducted a preliminary phase audit of UN activities in North Korea. The Board released it report on May 31, 2007. Unfortunately, while the BOA report confirmed U.S. concerns in a variety of areas, the BOA was unable to travel to North Korea to examine original documents in Pyongyang, including receipts for checks that were written out to "cash" for payments to vendors and staff. As you know, the External Independent Investigative Review Panel (EIIRP) established by UNDP to inquire into UNDP activities in North Korea, is working with UNDP and the U.S. Mission, to facilitate its work. Apparently, UNDP has transferred files to New York for examination by the EIIRP.

The Panel issued its report at the beginning of June 2008. The State Department cooperated extensively with the Panel in order to facilitate its work.

We remain concerned by a number of the Panel's findings and the on-going need for corrective action. We have been working with UNDP management for over a year now to address systemic weaknesses through our UN Transparency and Accountability Initiative (UNTAI).

We will continue to follow up with UNDP management and the Executive Board to address the Panel's findings and recommendations and to press for continued improvements in UNDP's management oversight and transparency and accountability systems to ensure that UNDP follow its own rules and procedures and reduces risks in similar situations.

5. **Now that we know the UNDP is dangerously negligent in its dealings with rogue, terrorist states like North Korea, why hasn't the State Department's budget request for 2009 asked Congress to zero out its $100 million contribution to the UNDP core budget?**

   a. **Will you advise other U.S. agencies against contributing to the UNDP through extra-budgetary contributions that totaled more than $142 million in 2005 according to the OMB?**

   b. **In an attempt to avoid further terror financing through the UNDP, do you think it is advisable for the President to issue an Executive Order prohibiting any U.S. agency from funding the UNDP (cash or in-kind) until the UNDP adopts adequate controls, allows frequent audits from non-U.N. entities, and enacts other risk management reforms?**

   RESPONSE: UNDP is an important multilateral mechanism for us to advance U.S. foreign policy objectives, including assisting the poor in the world. UNDP works in several areas that are U.S. foreign policy priorities, for example, democratic governance, post-conflict reconstruction and stabilization. It is, therefore, important for us to participate in the organization and support its mission, including by providing funding.

   In response to action initiated by the U.S. in UNDP's Executive Board, UNDP terminated its program in North Korea as of March 1, 2007, because the DPRK government refused to comply with UNDP rules for operations of country program.

   In recent years, particularly during the past year, we have been pressing UNDP management to improve its performance and take corrective action. Among other steps, we have:

   - Requested UNDP management to make its audit and program

performance information available to the UNDP Board and the public,

- Requested UNDP management to improve programming and evaluation systems to ensure that donor resources are used effectively and that program results are properly evaluated and reported.

We are also actively taking steps to implement Section 668 of the 2008 appropriations legislation to improve UNDP transparency and accountability, with respect to State Department access to information regarding UNDP programs and activities, UNDP oversight of programs and activities globally, and whistleblower protection policy.

Other USG agencies' contributions to UNDP are voluntary funding earmarked for specific purposes. As such, donor USG agencies, through negotiations with UNDP, set the conditions for the use of these funds, including oversight and monitoring requirements. These agencies have the option of not providing funding if UNDP cannot meet the standards that they deem necessary for internal control, access to audits, and other oversight requirements.

6. **In September of last year, the South African U.N. Ambassador – who opposes every major U.S. initiative at the U.N. – praised you for "going against your own mission" in backing off the allegations of UNDP mismanagement in North Korea. Is the South African Ambassador correct?**

RESPONSE: The South African Ambassador to the UN has no specific role with UNDP or their executive board. Ambassador Khalilzad and the U.S. Mission directly approached UNDP about the mismanagement of the UNDP program in North Korea. The U.S. Mission worked with UNDP to establish an independent investigation to review evidence of mismanagement and improprieties by UNDP in the administration of the North Korea country program. Ambassador Khalilzad's objective was to find the most effective solution to the problem. As a result, UNDP established the External Independent Investigative Review Panel (EIIRP), headed by a former Prime Minister of Hungary, to review evidence of mismanagement and other improprieties with which we cooperated extensively in order to facilitate its work.

7. **The U.N.'s Alliance of Civilizations is an extension and continuation of the U.N.'s Dialogue of Civilizations founded by the Iranian government in 1998. The framework of the Alliance of Civilizations[1] blames tensions between Muslims and Western societies on Israel (paragraph 4.4), claims the Allied Forces invasion of Iraq had no connection to the War on Terror and was unjust (paragraph 4.7), and suggests countries fighting against Islamic terrorism, like the U.S., are practicing arbitrary detentions and renditions (paragraph 4.8). Is U.S. policy reflected in these and other passages of the framework document?**

   RESPONSE: There is no direct organizational link between the Alliance of Civilizations and the Dialogue among Civilizations, which is based on a concept introduced in 1998 by Iranian President Khatami and run by the United Nations Educational, Scientific and Cultural Organization (UNESCO). Spain and Turkey developed the Alliance of Civilizations (AOC) initiative in the wake of the 2003 Madrid bombings, in response to the perception of a growing divide between Western and Muslim societies. The Secretariat of the AOC believes the AOC has the potential to promote trust and understanding among diverse communities and prevent media from being used as a tool to fuel similar misunderstandings in the future. The AOC hopes to become a clearing house for information and a catalyst for partnerships between government agencies, international organizations and civil society bodies working in areas of intercultural and inter-religious engagement.

   The AOC is aware of our deep concerns about the conclusions of the High-Level Group Report, which we expressed at the time of the report's release in December 2006. The United States rejects the High-Level Group Report's criticism of U.S. involvement in Iraq and Afghanistan and its conclusion that Israel is responsible for Islamic extremism. Moreover, we do not agree that there is an inherent Muslim-West divide, noting that Muslims are a part of the West and Muslim issues are not limited to the Middle East and North Africa.

   We continue to urge the AOC to take steps to ensure that it does not assume the ill-informed conclusions of the High-Level Group.

---

[1] http://www.unaoc.org/repository/HLG_Report.pdf

a. **Reports indicate Secretary Condoleezza Rice recently told officials in the Spanish government that the U.S. planned to support and participate in the Alliance of Civilizations. Is this report accurate?**

RESPONSE: The United States has not made a financial contribution to the AOC. On April 22, 2008, we notified the AOC's High Representative, Jorge Sampaio, and the Spanish and Turkish Foreign Ministers that the Secretary had identified the U.S. Department of State's Citizen Dialogue Program as a program that furthers the objectives of the AOC. This notification did not make the Citizen Dialogue Program an AOC initiative.

The Citizen Dialogue Program sends small groups of American Muslims overseas to share their experiences with a range of audiences in foreign countries. The goals of the program include taking part in an open dialogue about life in American and Islam in America, freedom of faith, pluralism, respect, and mutual understanding of culture and civilizations. This person-to-person program also will develop new bridges among diverse communities. Under this worldwide program, American Muslim leaders have visited numerous countries in Europe, as well as in Asia, Africa, and the Middle East. In our current fiscal year, four Citizen Dialogue teams will visit about a dozen countries in Europe, with additional trips to other regions.

b. **Should the Alliance of Civilizations include individuals representing the perspective of the government of Israel in its High-Level Group with an opportunity to include an alternative perspective in the Alliance's frame work, the "Report of the High-Level Group," released in 2006?**

RESPONSE: To our knowledge, the Government of Israel has not expressed an interest in being represented in either the Group of friends of the Alliance of Civilizations or the High-Level Group.

c. **Who is responsible for oversight and audits of the Alliance for Civilizations?**

RESPONSE: The AOC is fully funded through voluntary contributions. Because we are not a contributor to the AOC and are not formally affiliated with the organization, we are not privy to information about the oversight and audits of the AOC.

d. **Please provide all existing internal audits, budgets, and a complete list of contributions to the Alliance of Civilizations to date.**

RESPONSE: We have asked the AOC to provide us with its budget and list of contributors.

8. **Iqbal Riza is the U.N. Under Secretary General that liaisons with the Alliance of Civilizations. Before his current job, he was the Chief of Staff for former Secretary General Kofi Annan. During the Volcker Committee investigation of the Oil for Food scandal, Riza destroyed three year's worth of Secretary General Annan's executive-suite documents that Paul Volcker's Committee ordered preserved because of their potential relevance to the investigation. Furthermore, volume III of the Volcker Committee's final report, released Sept. 7, 2005, indicates Riza was less than truthful with the Committee regarding his extensive involvement with the Oil for Food Program and direct interactions with Saddam Hussein's agents involved in the bribery and kickback scheme.**

a. **Should Iqbal Riza be employed by the U.N. given his role in obstructing the Volcker investigation into the U.N. Oil for Food scandal?**

RESPONSE: The Oil for Food scandal was a shameful period in the UN's history. The past corruption and graft uncovered by Mr. Volcker's report indicated that many individuals, entities and Member States helped contribute to an environment that allowed and even perpetuated enormous graft and corruption. Nevertheless, despite Mr. Riza's actions in regard to the Volcker Committee, the Secretary-General decided to appoint him.

b. **Would you support the U.N. Secretary General revoking Iqbal Riza's diplomatic immunity in order for U.S. federal investigators to inspect his role in the scandal?**

RESPONSE: Any requests to revoke the diplomatic immunity of UN staff are submitted to the Secretary-General through the UN Office of Legal Affairs (OLA). Any such request by U.S. federal investigators would be submitted to the UN through the U.S. Mission. The U.S. Mission would transmit and facilitate this request as appropriate.

c. **Does Iqbal Riza file financial disclosure forms with the U.N. Ethics Office or any other U.N. entity? If so, please provide a copy of the disclosure.**

RESPONSE: All UN staff members at the level of D-2 and above (and others) are required to file a financial disclosure statement. The statements are submitted to the UN Ethics Office. However, these staff members are not required to publicly disclose their statements. The Secretary-General and the Deputy Secretary-General have made their statements public. Moreover, the Secretary-General has encouraged UN senior officials to follow his lead and make public, on a voluntary basis, their statements. Mr. Riza has declined to make his public.

d. **Does Iqbal Riza have any other source of compensation outside of the U.N.?**

RESPONSE: The State Department has no knowledge of the terms of Mr. Riza's non-UN compensation. We would note that the receipt of additional compensation by UN officials from an entity outside of the UN is a potential violation of UN Staff Regulations and Rules, depending on the circumstances. There is an absolute prohibition in the Staff Regulations on UN staff members receiving any compensation from a government.

9. **As you know, the U.N.'s "Durban" conferences provide a global platform for anti-Semitism and the demonization of Israel. The United States has made clear its opposition to these racists conferences in several ways including walking out of the first Durban conference, voting consistently against every Durban "follow-up" resolution in the General Assembly, and voting against the entire U.N. 2008-2009 biennial budget since it included funding for the upcoming "Durban II" conference.**

What steps are you taking to ensure that U.S. funds are not used in the Durban II conference or its preparation? How much U.S. funds have already gone to the Durban II conference or its preparation?

RESPONSE: In December 2007, the U.S. voted against a resolution which would have approved a preliminary appropriation in the amount of $6.7 million for Durban preparatory conferences. The General Assembly will consider a final appropriation in the coming months. In accordance with previous practice, the U.S. will vigorously oppose any funding resolution for Durban and/or its preparatory committees.

The Human Rights Council (HRC) is being used as a preparatory committee for Durban. On April 8, 2008, Assistant Secretary of State Kristen Silverberg testified

before the Congress that the U.S. will withhold from its assessment payment the U.S. share of the funding for the HRC.

In early to mid-2007, there were three preparatory meetings related to Durban II that cost $2,368,385 of which the U.S. share was $521,044.

RESPONSE TO SUPPLEMENTAL QUESTION FOR THE RECORD
FROM

SENATOR CARL LEVIN
SENATOR NORM COLEMAN

to

MR. THOMAS MELITO

Director, International Affairs and Trade
United States Government Accountability Office

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
UNITED NATIONS DEVELOPMENT PROGRAM:
A CASE STUDY OF NORTH KOREA
January 24, 2008

Q. Section 688 of the Department of State, Foreign Operations and Related Programs Appropriations Act mandates that the Department of State certify to Congress that UNDP has instituted an effective whistleblower protection program. The Government Accountability Project has published an extensive critique of the whistleblower protection policies of UNDP and other UN Funds and Programs, a copy of which is attached. At the hearing, UNDP stated that it had sufficient whistleblower protections in place prior to the UN's independent investigation into UNDP's North Korea operations, and that it had strengthened these protections since the suspension of its North Korean operations in April 2006.

Please discuss (1) the analysis of the Government Accountability Project, and (2) whether UNDP's present whistleblower protection program meets the requirements of Section 688.

RESPONSE: In order to respond to the request of the Permanent Subcommittee on Investigations regarding the whistleblower protection policy of the United Nations Development Program (UNDP), GAO reviewed documentation on the UN ethics office, a GAO report on the progress on UN management reform efforts, UNDP's whistleblower protection policy, and relevant U.S. legislation. GAO also spoke with an official at the U.S. Mission to the United Nations in New York. GAO did not determine whether State can properly make the Section 688 certification that UNDP has instituted an effective whistleblower protection program and GAO did not assess the critique by the Government Accountability Project (GAP) of the UNDP.

The UN system is composed of a Secretariat and separately administered funds, programs, and specialized agencies. UN funds and programs include the United Nations Children's Fund and the United Nations Development Program. Programs, such as the UNDP, are under the authority of the Secretary-General, but have their own executive boards and executive heads.

Permanent Subcommittee on Investigations
EXHIBIT #22

The UN Secretariat established an ethics office in January 2006. The ethics office is responsible for (1) administering the UN's financial disclosure program, (2) implementing the UN whistleblower protection policy, (3) providing guidance to staff on ethics issues, and (4) developing ethics standards and training. In 2007, GAO reported that the ethics office had increased staffing, developed ethics standards, collected financial disclosure forms, and begun to enforce a whistleblower policy.[1]

In 2007, upon completing their initial review of the whistleblower retaliation case of a UNDP employee, the UN ethics office and the Office of Legal and Procurement Services concluded that the UN's whistleblower protection policy applies only to employees directly under the Secretary-General. They also concluded that the UN ethics office has no formal jurisdiction over the various funds and programs, including the UNDP.

In Section 688 in the Consolidated Appropriations Act, 2008, Congress mandated that 20 percent of the funds appropriated for fiscal year 2008 for the U.S. contribution to UNDP be withheld until the Department of State (State) certified, among other things, that UNDP is "implementing a whistleblower protection policy equivalent to that recommended by the United Nations Secretary-General on December 3, 2007."[2] According to an official at the U.S. Mission to the United Nations, State had not provided the necessary certification as of April 11, 2008.

The recommendation to which the legislation refers is contained in a bulletin issued by Secretary-General Ban Ki-moon on November 30, 2007 that entered into force on December 1, 2007.[3] The bulletin sets forth minimum standards and terms of reference for ethics offices established by separately administered funds and programs.[4] It also establishes a UN Ethics Committee consisting of the heads of the ethics offices of separately administered funds and programs as well as the Secretariat's ethics office. This committee is responsible for creating a unified set of ethics standards and policies, as well as for investigating matters referred to it either by the heads of the funds and programs' ethic offices or by staff members, following a final determination by the relevant fund or program ethics office.

According to the bulletin, ethics officers who head a separately administered fund or program's ethics office must "function independently" and "report directly to the Executive Head of the respective separately administered organ or programme." The bulletin further states that "[i]ndependence, impartiality and confidentiality are vital prerequisites for the functioning and operation of an ethics office of a separately administered organ or

---

[1] GAO, *United Nations: Progress on Management Reform Efforts Has Varied,* GAO-08-84 (Washington, DC.: Nov. 14, 2007).

[2] Pub. L. 110-161, Div. J, Title VI, sec. 688(b)(3).

[3] ST/SGB/2007/11.

[4] If a separately administered fund or program does not establish its own ethics office, the Secretariat's Ethics Office assumes responsibility for carrying out the policies established by the Secretary-General's bulletin.

programme of the United Nations, and they shall be fully respected." However, with respect to whistleblower protection, the bulletin only requires that ethics officers carry out responsibilities assigned to them pursuant to the respective policies of the separately administered funds or programs.

UNDP's whistleblower protection policy was updated in November 2007.[5] According to this policy, the functions of UNDP's ethics advisor with respect to protection against retaliation for reporting allegations of wrongdoing are

- to receive complaints of retaliation;
- to keep a confidential record of all such complaints; and
- to do an initial review of the complaint to determine if: (1) the complainant engaged in protected activity, (2) the action alleged to be retaliatory or a threat of retaliation did take place, and (3) there is a prima facie case that the protected activity was a contributing factor in causing the action alleged to be retaliatory or a threat of retaliation.

The ethics advisor has 45 days following receipt of a complaint to complete the initial review. If the ethics advisor determines that there is a credible case of retaliation or threat of retaliation, the case is referred to the Office of Audit and Performance Review (OAPR) for an investigation that must be completed within 120 days. Should the OAPR determine that retaliation or threat of retaliation occurred, the Ethics Advisor may make recommendations to the Office of Human Resources and the Legal Support Office to develop measures aimed at correcting negative consequences suffered by the staff member as a result of the retaliatory action.

#

[5] The current UNDP whistleblower protection policy is contained in Chapter II of "Updated UNDP Legal Framework For Addressing Non-Compliance With UN Standards Of Conduct" (Nov. 6, 2007).

"A Comparative Analysis of the U.N. and UNDP Whistleblower Protection Policies"
Prepared by the Government Accountability Project (GAP)

GAP SUMMARY OF UNDP COMMENTS
February 21, 2008

UNDP's defense of its whistleblower protection policy is based on an inaccurate interpretation of SGB/2005/21, which GAP helped to draft originally. The Under Secretary General for Management intended the application of a single ethical standard to the UN Organization, as demonstrated below. UNDP explains the Program's weaker whistleblower protection policy by citing UNICEF and UNFPA's policies, but that begs the question. Those policies also dilute and violate SBG/2005/21, the authoritative standard.

Moreover, UNDP fractured ethical standards much farther than these Funds by establishing a separate internal Ethics Office and refusing to recognize the jurisdiction of the UN Ethics Office when it ordered an investigation of the allegations of a UNDP whistleblower. This initiated a chaotic sequence of events that has left whistleblowers without meaningful and effective recourse as UNDP and the other Funds and Programs establish *ad hoc* processes for addressing retaliation.[1]

In a number of instances, UNDP explains the differences between its policy and the Secretariat's by citing the UNICEF and UNFPA policies, which also tend to be weaker, often in similar ways. But this argument does not really address the problem of a deficient policy for whistleblowers. Further, there is a fundamental distinction between the way in which UNICEF has handled this issue and the reactive approach of UNDP (We have not spoken to UNFPA).

Early in 2007, one year after the publication of SGB/2005/21, UNICEF quietly developed its own whistleblower protection policy. Public comment was not solicited. Nor was a press release issued. The new policy was never externally posted.[2] Nonetheless, the matter rested there. UNDP did not adopt its own policy at that time. Over one year later, when the UN Ethics Office found that a UNDP whistleblower had a *prima facie* case of retaliation, UNDP hastily adopted its own policy, replicating the weaker UNICEF policy rather than the stronger Secretariat policy. Then UNDP went further and established its own Ethics Office, naming a 30-year veteran of the Program to lead it rather than recruiting a neutral outsider, as the Secretariat had done.

It is conceivable that, in the wake of SGB/2005/21, an additional administrative step was necessary to reinforce the UN Ethics Office's capacity to oversee the Funds and Programs.

---

[1] That said, we recognize that UNDP has changed the policy we analyzed since we wrote our initial comments. All changes are noted and analyzed below.

[2] When GAP sought to obtain the policy, we were obliged to submit a request in writing describing our organization and our objective in seeking the document. In short, the UNICEF policy was closely held. When GAP did obtain the policy, we saw that it was, in fact, weaker than SGB/2005/21 in critical ways.

That is no excuse for the UNDP Administrator to evade the responsible Ethics Office's jurisdiction, especially just after an embarrassing finding that one of his senior operations officers in a crucial post had suffered retaliation for disclosing misconduct. All new policies and standards go through growing pains to establish a functional implementation plan. But the UNDP Administrator not only has splintered application of a single ethical standard; to date he has eliminated credibility for the U.N.'s institutional commitment to protect whistleblowers.

It is urgent that the UN Ethics Committee take steps to harmonize all Funds' and Programs' whistleblower policies to meet the standards established by ST/SGB/2005/21. We recognize that the November 2007 Legal Framework of UNDP addressed some of the problems we raised based on the September '07 document, but we also suggest that UNDP immediately amend its November '07 Legal Framework to address the remaining deficits. GAP offers its pro bono services to UNDP to help harmonize remaining inconsistencies, as analyzed below.

UNDP Comments
February 12, 2008[3]

UNDP welcomes the attention paid by the Government Accountability Project (GAP) to critical issues of transparency and accountability. We are of course prepared to engage in an ongoing discussion of these issues in the interest of both employee welfare and organizational effectiveness. However, the GAP analysis referenced above proceeds from several mistaken assumptions about both the U.N. Ethics System established by the Secretary General in late 2005 and the UNDP Legal Framework on Standards of Conduct issued in September 2007. It also seems to dismiss the Secretary-General's attempt in his Bulletin of November 30, 2007 to engage the Funds and Programmes in a harmonization of the ethics system across these agencies as a step backwards, rather than the constructive initiative it represents. Finally, the memo contains several important inaccuracies about the applicable provisions, which this response seeks to correct.

Jurisdiction of the U.N. Ethics Office. The GAP's first mistaken assumption is that the ethics policy articulated in the Secretary-General's Bulletins of 2005 applied automatically to the Funds and Programmes--without regard to the separate governance arrangements of these organizations. Although that may also have been the expectation of U.N. Undersecretary Christopher Burnham and others at the time, as GAP asserts elsewhere,[4] those Bulletins were not in fact developed in consultation with the Funds and Programmes and therefore could not simply be imposed upon them because of their distinct legal and governance structures. Given the obvious disagreement on this point with the GAP, it may be helpful to review how the policies came into being.

- In 2005 then-Secretary General Kofi Annan began exploring the creation of a UN Ethics Office. In the World Summit Outcome Document of September 2005,

[3] Prepared by the Washington Liaison Office of UNDP.
[4] See the December 4, 2007 release "New UN Ethics Guidelines Greatly Misleading" on the GAP website which makes this argument. http://www.whistleblower.org/content/press_detail.cfm?press_id=1253

world leaders urged the Secretary-General to develop a system-wide code of ethics and requested that he submit to the General Assembly details of the planned Ethics Office.

- In separate October 2005 and November 2005 reports to the General Assembly, Secretary-General Annan provided these details. In particular, in the October report he made clear that the relationship between the UN Ethics Office and the funds and programs was yet to be worked out. He wrote, "Consultations with the United Nations funds and programmes are under way to determine cooperative arrangements that might be concluded between them and the Secretariat."

- In December 2005 Secretary-General Annan established the UN Ethics Office by promulgating a "Secretary-General's bulletin" on the subject (SGB/2005/21). He also issued a separate Bulletin dealing with the protection of employees who report misconduct (SGB/2005/22). The rules governing these Bulletins state that "Secretary-General's bulletins shall not, unless otherwise stated therein, be applicable to separately administered organs and programmes of the United Nations." The 2005 Bulletin that established the Ethics Office did not address the relationship with the Funds and Programs. So it was understood at the time that this was an issue to be resolved in the future.

- In this context, the General Assembly issued a resolution in June 2006 that welcomed the establishment of the Ethics Office and also urged the Secretary-General to "finalize a system-wide code of ethics for all United Nations personnel, including personnel of the funds and programmes, at an early date."

- U.S. Ambassador to the U.N. Zalmay Khalilzad, acknowledged the confusion regarding the jurisdiction of the Ethics Office in a statement of August 23, 2007: "We believe the Ethics Office should have jurisdiction over all UN employees no matter where they work. We recognize that there are different jurisdictional interpretations and support the Ethics Office['s] desired approach. We are committed to working with the Secretary-General to fix this problem.

GAP Response: At GAP, we have cited the operative paragraph of General Assembly Res. 60.1, (para. 161 (d)) in many documents to demonstrate the intention of the General Assembly with respect to the establishment and scope of the UN Ethics Office. There have been numerous arguments developed by UNDP to circumvent the intention of the resolution, all of them spurious in light of the clarity of the expression used by the General Assembly:

> We urge the Secretary General to scrupulously apply the existing standards of conduct and develop *a system-wide* code of ethics for all United Nations personnel. *In this regard*, we request the Secretary General to submit details of the establishment on *an* ethics office with independent status, which he intends to create, to the General Assembly at its sixtieth session (emphasis added).

In this resolution, the General Assembly says '*an* ethics office' when directing the SG to apply a system-wide code of ethics. The intent could not be more explicit, yet UNDP insists on continuing to argue this point.

Similarly, in March, 2006, then SG Kofi Annan said: "[D]uring the course of 2005, I introduced a number of changes aimed at correcting the situation and giving senior management the tools necessary to ensure that *all employees of the Organization* adhere to the highest standards. In particular, the United Nations has established *a* dedicated ethics Office approved by the Member States; Promulgated strengthened rules to ensure protection against retaliation for those who report misconduct through a new "whistleblower" protection policy..."[5]

Further, we have said that it was the understanding of those who worked on the policy (the UN Under Secretary for Management and GAP), as well as of Robert Benson, who assumed the position of UN Ethics Officer, that a single standard of ethics would apply system-wide, whatever administrative steps would subsequently be necessary to effect that. While it may be true that an additional internal step was required to finalize the application of a single ethical standard across the UN system, there was no reason to assume that this step would be aborted.

Moreover, when GAP inquired of the UN Ethics Office in March, 2006 about the procedures necessary to file a retaliation complaint involving a whistleblower with a UNDP letter of appointment, a UN Ethics Officer told GAP to file it with her and sent a claim form. Earlier, she had done this with another UNDP whistleblower, and subsequently she did the same thing. All in all, these three UNDP whistleblowers, in addition to Artjon Shkurtaj (see below) were told by the UN Ethics Office to file their complaints there, so clearly the Ethics Office staff labored under the same illusions that GAP did about their jurisdiction.

In addition, Kemal Dervis, Administrator of UNDP, did not stop the UN Ethics Office from considering the case of Artjon Shkurtaj, a UNDP whistleblower who was also told to file his retaliation complaint with the UN Ethics Office. Only after the Ethics Officer found a *prima facie* case of retaliation did Mr. Dervis announce that UNDP was not subject to the jurisdiction of the UN Ethics Office. This chronology demonstrates that the decision by the UNDP Administrator to secede from Ethics Office jurisdiction was a purely opportunistic one. If the UN Ethics Office had no jurisdiction, in Mr. Dervis' view, he should have stopped the review of the Shkurtaj case immediately so the Office did not waste time and energy examining a case it was not authorized to assess.[6]

Finally, the UN system has been reforming to avoid duplication of effort and 'deliver as one' for several years. In light of this general and overarching mandate for the system as a whole from the General Assembly, why would the Secretary General think it appropriate to fracture the Ethics Office rather than ratify its jurisdiction?

---

[5] "Investing in the United Nations for a Stronger Organization Worldwide" A/60/692 Box 1.

[6] Because of the extensive press coverage of the allegations, Mr. Dervis cannot credibly claim that he was unaware that a retaliation complaint had been filed with the UN Ethics Office.

While it may be true that an additional administrative step was necessary to clarify the relationship between the Ethics Office and the Funds and Programs, this is not the same as advocating the establishment of multiple ethics offices. The Heads of the Boards of the Funds and Programs report directly to the Secretary General, and he has authority if he wishes to exercise it.

There may be justification for some separate budgets, staff regulations, and mandates among the Funds and Programs. It is inexcusable, however, to claim after the fact that the Ethics Office conclusions are irrelevant, or that different ethical standards are necessary. As a consequence, for the past two years, numerous UN whistleblowers have been forced to play a shell game with their livelihoods, incomes and careers, while the Executive Heads of UN Funds and Programs, together with the Secretary General, move the applicable protections and regulations from one powerless venue to another.

UNDP Comment: Meanwhile, UNDP sought to revise and enhance its existing policies on employee conduct and reporting of wrongdoing. Those revised policies were set out in its September 20, 2007 "Legal Framework for Addressing Non-Compliance with UN Standards of Conduct". They are based on the approach of the Secretariat in the Secretary-General's two Bulletins of 2005. Where there are exceptions to the Secretariat's approach, they relate to differences in organizational considerations and track provisions adopted earlier by UNICEF and UNFPA.

GAP Response: The fact that UNICEF and/or UNFPA adopted weaker provisions for whistleblower protections than the Secretariat's is as unjustified as UNDP's attempt to do so. Moreover, neither UNDP nor UNFPA did this in direct reaction to the ruling in a specific whistleblower complaint that found retaliation in their agencies. Nor did they take the further step of balkanizing the Ethics Office by setting up subsidiaries of their own. UNICEF only took this step later, after UNDP's precedent.

UNDP Comment: The Legal Framework provided a comprehensive expression of the application of UN Staff Regulations 10.1 and 10.2 and Chapter X of the Staff Rules to UNDP. This document updated and replaced the Accountability, Disciplinary Measures and Procedures that were approved on 1 January 2004. Among the major changes were:

- Expanded provisions defining the rights and obligations of staff in reporting wrongdoing, including regarding whistleblower protection;
- More detailed definition of the delegation of authority, including the authority of the Associate Administrator in the application of the disciplinary process and measures; and
- Clarification of the due process rights of staff members in the course of, and conclusion to, an investigation.

GAP's different assumption about the 2005 Bulletin accounts for its assertion that the second Bulletin on ethics reform issued by the Secretary General on November 30, 2007, weakens whistleblower protections and "complicates and confuses the

issue...exempting the Funds and Programmes from the jurisdiction of the U.N. Ethics Office." In fact, the 2007 Bulletin is a step in the direction of greater coherence, reflecting a consensus among the Secretariat and the Funds and Programmes to promote a more harmonized ethics system, notwithstanding the formal differences in jurisdiction. This Bulletin, reflecting consultations with the Funds and Programmes, was a significant achievement, not a step backward.

GAP Response: This Bulletin is a step backward, because the SG chose to interpret his predecessor's Bulletin in restrictive way. However, even with this interpretation, the Secretary General is empowered to extend the jurisdiction of the UN Ethics Office to the Funds and Programs unilaterally.[7] While the specialized agencies may require separate negotiations because of their relationship to the Secretariat, this is not true of the Funds and Programs, where the Executive Heads report directly to the Secretary General and are subject to his authority.

In electing to allow the fragmentation of the UN ethics system rather than insisting on a single set of standards, the SG opened up to internal debate a proliferating set of questions involving appeal, prevailing standards, decision-making, parallel authorities, separate exemptions and types of protection for different classes of employees, etc. GAP has elaborated in another document the escalating confusion as a result of SGB/2007/11.

UNDP Comment: The same difference of assumptions is also the basis for GAP's criticism of UNDP's Administrator, Kemal Dervis, in declining in June 2007 to recognize the jurisdiction of the U.N. Ethics Office to take up the case of Artjon Shkurtaj, who claimed whistleblower status for his accusations about UNDP's operations in North Korea. That case is now being reviewed by the External Independent Investigative Review commissioned by UNDP in September

GAP Response: This body is an *ad hoc* committee established directly by the Administrator himself, without transparent or objective criteria. Its members were not impartially chosen and have no particular expertise in retaliation complaints. The review panel has already made significant errors in the conduct of its inquiry that prejudice the interests of the whistleblower. For example, the transmission of evidence from Pyongyang to New York was not safeguarded to ensure that no tampering occurred. Nor did the panel act to safeguard the integrity of relevant electronic information. It is not clear whether these shortcomings were the result of inexperience, incompetence or disregard, but the end result could seriously jeopardize the appellant's case.

(According to its website, GAP represents Mr. Shkurtaj in this matter.)

---

[7] The Charter describes the Secretary-General as "chief administrative officer" of the Organization, who shall act in that capacity and perform "such other functions as are entrusted" to him or her by the Security Council, General Assembly, Economic and Social Council and other United Nations organs. As cited above, the General Assembly clearly charged the Secretary General with the establishment of a *single ethics office* (General Assembly Res. 60.1, para. 161 (d)).

GAP Response: We represent Mr. Skurtaj in a non-litigation capacity, but Mr. Shkurtaj is represented by George Irving in his dealings with the review.

However, Mr. Dervis' understanding was also supported by the head of the U.N. Ethics Office, Robert Benson, in his recent appearance before the Senate Permanent Subcommittee on Investigations—despite the initial statements he made shortly after assuming his new position last spring.

GAP Response: No comment necessary here concerning Mr. Benson's shifting positions.

UNDP Comment: The new approach by the Secretariat and the Funds and Programmes should accomplish much of what the GAP is advocating, by promoting greater clarity and consistency throughout the U.N. system on the basic rights and standards that should apply in all organizations and affording staff members an opportunity for a review of their claims, on appeal, by the U.N. Ethics Office.

GAP Response: On the contrary, the SGB/2007/11 opened a Pandora's Box of questions and confusion about which standards and authorities apply in which instance, and which standards will prevail on appeal. In fact, even the procedures of appeal to the new Ethics Committee are unclear and can be changed from case to case. Mr. Benson, speaking in a press conference, told a questioner that in dealing with existing whistleblower allegations, decisions would be made on a case-by-case basis. This *ad hoc* decision-making is exactly what meaningful enforcement of ethical standards is meant to eliminate.

UNDP Comment: Point-by-Point responses. Regarding the more specific issues covered in the GAP memo:

Original GAP Comment

- *"The [2005] policy covered all United Nations operations, down to the level of contractors, without any stated exceptions."*

UNDP Comment: This is mistaken. Both UNDP and the UN treat contractors in the same manner. In fact, both use the same language: "Any retaliatory measures (including threats) against a contractor or its employees, agents or representatives, or any other individual engaged in dealings with [UNDP] because such person has reported allegations of wrongdoing by a staff member will be considered misconduct that, if established, will lead to administrative and/or disciplinary action" (see section 8 of the SGB and para. 53 of the UNDP Legal Framework (LF); and UNICEF (para. 25).

GAP Response: GAP is not mistaken. While the language above is the same, the provision cited by UNDP deals with establishing that a *retaliator* should be *disciplined*. GAP is more concerned with establishing that a *whistleblower* should be *protected*. In the UN policy, protection from retaliation, and therefore eligibility for relief and vindication, is extended to "any staff member, regardless of type of appointment, intern or United Nations volunteer" (para.2.1). In fact, after SGB/2005/21 was issued, GAP staff worked with the UN Under Secretary for Management to develop explicit language to cover UN

contractors. Before this language was finalized, the controversy involving UNDP developed and further progress on the explicitness of contractors' coverage stopped. To verify this, please contact Ms. Cass Durant, formerly from the office of the UN Under Secretary for Management.

In contrast, the UNDP Legal Framework explicitly *precludes* protection for: "Independent contractors working with UNDP under Special Service Agreements" (2.2. 6 (d)). Moreover, it does not apply to UNDP staff members seconded to another agency, locally-recruited staff seconded to another agency, people employed under service contracts, volunteers or interns. Ironically, those employees are now explicitly covered by the SG's 2005 policy, and explicitly excluded by UNDP's substitute.

The UNDP statement here is also an error of fact. UNDP misrepresents the terms of the UNICEF policy, which does not explicitly exclude contractors from coverage the way that the UNDP policy does. UNICEF's policy applies to all "UNICEF staff members," but the policy fails to define who is included under this definition. Presumably, contractors and others who are exempt under UNDP's policy, may be covered by UNICEF's policy. Interestingly, UNDP does not cite the WFP policy, which does include contractors explicitly.

Original GAP Comment

- *"But this year [2007] the United Nations Development Program (UNDP) has refused to honor the 2005 policy and accept the procedures, replacing a basis for genuine protection with a gutted policy of its own."*

UNDP Comment: UNDP's new Legal Framework in 2007 was intended to clarify and strengthen, not weaken the protection of whistleblowers (See paragraph above on narrowing the scope of protection at UNDP). To call it a "gutted policy" is inaccurate and unfair.

GAP Response: The GAP analysis sets out specific changes in language that weaken the policy, none of which are addressed in this UNDP response. Furthermore, the GAP memo discounts the steps taken in the Secretary General's Bulletin of November 30 to promote a more harmonized system, which UNDP does support and in fact was instrumental in facilitating among the Funds and Programs. **GAP Response:** If this step had not been taken in response to the Shkurtaj case, there would not be any need to 'harmonize' ethical standards in the first place. There would be a single set of ethical standards.

Original GAP Comment

- *"Most significant, UNDP has refused to accept the authority of either the Ethics Office or the U.N. appeals process as enforcement of the policy."*

UNDP Comment: This is not true. GAP confuses our original position that the U.N. Ethics Office lacked formal jurisdiction over UNDP (see above) with the current policy stated in the Secretary General's Bulletin of November 30, which we support.

GAP Response: GAP's position is accurate. The UNDP Administrator aborted an investigation after a finding of retaliation was returned by the UN Ethics Office, although the Ethics Officer appealed to him to allow investigators to proceed. Under the SGB of November 30th, whistleblowers may appeal an adverse decision from the ethics office of a Fund or Program to the Chairperson of the Ethics Committee, but the criteria for the committee's accepting the case for review are unspecified and completely discretionary.

Original GAP Comment

- *"Instead, whistleblowers must submit to an internal grievance system controlled by offices that represent the adverse parties in both the investigation and any subsequent appeal – an inherent conflict of interest."*

UNDP Comment: This is incorrect. UNDP's appeals process is the same as in the UN -- the Joint Appeals Board and then the UN Administrative Tribunal; only the first level of review is within UNDP – the request for administrative review – as it is within the Secretariat and the other Funds and Programmes.

GAP Response: This statement was correct when it was written. Our statement dealt with whistleblowers and their lack of protection under the internal UNDP policy. *Whistleblowers* at the UN can appeal to an impartial and independent Ethics Office. They are not solely dependent on the Joint Appeals Process. Further, no one in the Organization can retaliate against a whistleblower for reporting to the Ethics Office. At the time GAP wrote this analysis, UNDP did not have an Ethics Office. The whistleblower (Artjon Shkurtaj) who was appealing for protection at the time was relegated to an inquiry conducted by a panel personally appointed by the UNDP Administrator, whom Shkurtaj has implicated in his case. This is a conflict of interest. At this time, also, the Office of Audit and Performance Review (OAPR) was to evaluate a complaint for a *prima facie* case of retaliation and then make a *recommendation* to the Legal Services Office (LSO) of UNDP. LSO, of course, defends management in an employment-related dispute. It is true that a second version of the UNDP Legal Framework partly corrected this explicit conflict of interest by having the Ethics Advisor decide whether or not there is a *prima facie* case. However, this decision can be made in partnership with the Office of Human Resources (OHR), which may have a conflict of interest. Retaliation often occurs as an administrative action that is implemented by Human Resources.[8] Further, even in the new policy, once an investigation finds that retaliation or a threat of retaliation is established, the case is referred to LSO for disciplinary action. LSO, which has an inherent conflict of interest, can then recommend suspension, exoneration of charges, or other courses of action.

Original GAP Comment

- *"UNDP's secession threatens to precipitate a stampede among other U.N. agencies, which already are preparing their own internal Balkanized whistleblower programs."*

UNDP Comment: There is no "secession" involved, because there was no unified system to secede from. The progression is actually in the opposite direction; UNDP's policy is

[8] GAP represents a client who has suffered through this process, and has not been given access to an independent ethics office retroactively.

largely based on the Secretariat policy. All differences are consistent with the UNICEF and UNFPA policies which preceded the UNDP policy and hence did not originate with UNDP.

GAP Response: The Secretary-General nominates the Administrator of UNDP, in this case Kemal Dervis, who therefore, reports to the SG. Dervis' decision to ignore the UN Ethics Office, established by the SGB, is tantamount to secession. In addition, UNDP's Executive Board is subordinate to the UN General Assembly. The Assembly elects ECOSOC, whose members elect UNDP's Executive Board. Therefore, unilateral action like the refusal to submit to a ruling of the Ethics Office is, at the very least, an act of insubordination.

Original GAP Comment

- *"The impact would be to limit the U.N. whistleblower policy's authority to the relatively small Secretariat staff, allowing the much larger funds and programs to substitute a shell version weakened by conflict of interest, to deal with ethical breakdowns at their headquarters and country offices. This is especially troubling, given the unique oversight challenge for widely dispersed field offices where ethical violations most commonly occur and have the greatest impact. Since the U.N. has been the pace setter for other IGO whistleblower programs, the precedent can be expected to spread to the Multilateral Development Banks."*

UNDP Comment: UNDP's policy is not a "shell version." Once again, this comment does not take into account the appeals mechanism established under the latest SGB that the UN Secretariat and the Funds and Programmes have agreed on. (Nor, for that matter, is the Secretariat staff "relatively small". It includes several substantial organizations, including the Department of Political Affairs and the Departments of Peacekeeping which presently manages more than 100,000 civilian and military staff around the world).

GAP Response: As an example of the shell game played by UNDP, GAP represents a client who appealed to the UN Ethics Office for protection after he reported misconduct by the security officer in the UN house on Turkey. This whistleblower was a locally-recruited staff member (by UNDP) assigned to another agency (UNDSS). When he appealed to the UN Ethics Office in July, '07, the UNDP protection policy did not exist and he appeared to be covered by SGB/2005/21. In September, 2007, UNDP issued its own policy, which explicitly excluded from protection "locally-recruited staff assigned to another Agency, Fund or Programme who have UNDP letters of appointment but are considered staff members of the Agency, Fund or Programme and are administered on behalf of that Agency, Fund or Programme by UNDP" (2.2.6 (d)). Nonetheless, the UN Ethics Office then forwarded this complaint to the UNDP OAPR, which evaluated the complaint without considering the issue of retaliation and found the complainant was ineligible for relief.[9] GAP will now appeal to the UN Ethics Committee, under the terms

[9] There were serious due process issues in this investigation. For example, on November 5, GAP representatives and the whistleblower participated in a phone call with two OAPR representatives. During this discussion, OAPR officials told GAP they would report the conclusions of their investigation to LSO. GAP asked them if, when they reported to LSO, they would make a recommendation. They replied that they

of SGB/2007/11, but it is unclear whether the Committee can accept the case, as the complainant is not covered by the current UNDP protection policy (adopted *after* the complaint was filed), although he was covered by the original SGB on protection from retaliation 2005/21.

On staff size of the Secretariat:

As of 30 November 2005

Population: Includes internationally and locally recruited staff, regardless of length of contract; excludes United Nations staff administered by other organizations.

Location	Number of staff members	Percentage
Headquarters (includes UNOG, UNOV, UNON)	10,340	36%
Regional commissions	2,505	9%
Field locations	16,280	55%
Total number of staff members	29,125	100%

GAO data.

Roughly the same number of employees staff the Funds and Programmes. UNDP is correct about the additional size of the peacekeeping forces, however.

"Principal Distinctions between the U.N. Policy and the UNDP Legal Framework"

Original GAP Comment

*"1. **Statute of limitations:** No other factor cancels rights more often than an unrealistic statute of limitations. The U.N. policy has a six year time limit to report misconduct and no time limit to report retaliation. (Section 2.1) UNDP's substitute allows only 60 days to report retaliation, a restriction rejected in all relevant U.S. laws since the 1980's. (Paragraph 40)* [10]"

---

were only 'finders of fact,' and had no authority to draw conclusions from the information that came to light as a result of their inquiry. At this point in the discussion, GAP pointed out that, under the UNDP Legal Framework for Addressing Non-Compliance with UN Standards of Conduct, adopted September 20, 2007, OAPR was expressly charged with the responsibility for deciding, based on a preliminary review, whether a grievant had suffered retaliation as a result of a disclosure of misconduct. This determination was to be forwarded, not to LSO, but rather to the Director of OAPR, where the course of the subsequent investigation should be determined. OAPR investigators were not aware of their duties under the policy on November 5. The next day, however, a new Legal Framework was apparently adopted that shifted these responsibilities away from OAPR. Despite its representation of three UNDP whistleblowers, neither the whistleblowers nor GAP were informed that a new Framework had been adopted until several months later.

[10] *Citations to the U.N. policy are referenced as sections. Citations to the UNDP policy (September 20, 2007 version) are referenced as paragraphs.*

UNDP Comment: This is incorrect. The UN policy requires that reports of misconduct be filed "as soon as possible". UNDP's policy does provide for reporting of retaliation within 60 days; the UNFPA policy provides for 30 days; UNICEF's 60 days. Opinions will certainly vary as to whether it is preferable to have a lengthy opportunity to come forward with claims of retaliation, or whether it is more effective to promote more expeditious claims while the evidence is more readily available and remedial steps can more quickly be taken. Moreover, as indicated above, under the 2007 SGB UNDP staff members can now appeal to the United Nations ethics office if they feel unfairly limited by the time frames for reporting retaliation (section 4.3).

GAP Response: The response here does not contradict what GAP has said, i.e., the UN policy has no time limit to report retaliation and the UNDP policy does (60 days). Many whistleblowers do not even realize that there has been retaliation until their contract is not renewed, for example, some months after they have reported misconduct. Moreover, the explanation UNDP provides here simply illustrates the problem of proliferating statutes that GAP has emphasized throughout this exercise. If a whistleblower at UNDP appeals within 90 days but not 60 and receives no relief from UNDP Ethics, can he or she then appeal to the UN Ethics Committee? The Committee would then presumably apply the limit of 60 days for reporting retaliation to UNDP whistleblowers, but Secretariat whistleblowers appealing to the same committee have an unlimited period in which to report. At the same time UNFPA whistleblowers must report retaliation within 30 days. As it stands, the Ethics Committee must apply the three different reporting standards to staff members of the different agencies, although there is no reasonable justification for doing so.

Original GAP Comment

*"2. **Staff covered:** Access to the U.N. whistleblower policy is loophole free while the UNDP substitute is saturated with arbitrary loopholes limiting its relevance. UNDP excludes protection for seconded staff members, independent contractors, employees with service contracts, employees without a formal UNDP letter of appointment, some locally recruited staff, interns and volunteers (Paragraph 6)."*

UNDP Comment: This is also not correct. The UN policy covers staff, interns and volunteers. It does not cover contractors or people on service contracts. The UNDP policy covers staff, but not contractors, which is also the position of UNICEF (paragraphs 1 to 3) and UNFPA (paragraph 3). The fact that UNDP excludes staff members seconded or exchanged with regard to incidents that occur during their secondment or exchange is appropriate, since during this period seconded staff are serving with the receiving organizations and would be covered by their policy on protection against retaliation. This is consistent with the general framework for seconding staff among UN organizations. The fact that the protection against retaliation provided for in the UNDP Legal Framework does not apply to contractors, contract employees, volunteers and interns is consistent with the scope of application of the Framework itself (which is limited to UNDP staff).

GAP Response: UNDP's explanation is not correct. As explained above by GAP, the UN policy does not explicitly exclude contractors – or anyone else – from coverage. UNDP's policy does.

The World Food Programme's (WFP's) policy, in contrast, is much more inclusive than UNDP: it covers national and international staff, consultants, interns, service contract holders, special service agreement holders and volunteers.

UNDP Comment: Moreover, as indicated above, the UNDP Legal Framework seeks to prevent retaliatory measures (including threats) against contractors or any other "individual engaged in dealings with UNDP" who report allegations of wrongdoing. Under paragraph 53 of the Legal Framework, retaliatory measures (including threats) could, if established, lead to administrative and/or disciplinary action.

GAP Response: As also explained above, UNDP's policy only mentions contractors in the context of potential discipline of those who retaliate against them, which is not the same thing as protecting them from retaliation in the first place.

Original GAP Comment
*"3. **The independence of investigations:** While impartiality in the investigation process is difficult to ensure, the establishment of the U.N. Ethics Office independent of both the Office of Human Resources (OHR) and the Office of Legal Counsel was an important step in protecting internal review from improper influences. The U.N. policy empowers the Ethics Office to do investigations of alleged retaliators like the Office of Human Resources (OHR). (Section 5)."*

UNDP Comment: Actually, this is not true. The U.N. Ethics Office does not conduct formal investigations. It receives complaints of retaliation, does a preliminary review and if warranted refers to the Office of Internal Oversight Services (OIOS) for further investigation. UNDP has the same approach: preliminary review and referral for investigations. Furthermore, as in the Secretariat, the Ethics Office in UNDP is independent of both OHR and the Legal Support Office (LSO).

GAP Response: At the time GAP made this observation, UNDP had rejected the jurisdiction of the UN Ethics Office but did not have an Ethics Office of its own. During that period, the determination of a *prima facie* case of retaliation was made by OAPR, which transmits its conclusion to the Legal Services Office. LSO is, in fact, the office that defends management in a retaliation dispute and therefore has a structural conflict of interest. This changed in November, 2007, but a case remains in the dispute process that has not yet been decided anywhere.

Original GAP Comment

- *"However, under the UNDP policy, its internal ethics office consults with OHR to determine if a violation has occurred. (Paragraphs 12 and 28) This substitutes a process for consensus with the target of what should be a wrongdoing investigation."*

UNDP Comment: This is incorrect. Para. 12 refers to the policy on Sexual Harassment, not the policy on Retaliation. There is no reference in the retaliation policy about consulting with OHR to determine if a violation has occurred. Para. 28 provides that reports of retaliation should be submitted to the Ethics Advisor and/or to the Office of Audit and Performance Review (OAPR). (OAPR would refer the report to the Ethics Advisor for a preliminary review, per Chapter II of the Legal Framework, if it relates to retaliation).

GAP Response: GAP referenced an earlier version of the framework, which was the only one available at the time. We now have the November 6, 2007 version. The UNDP assertion is a bluff. The relevant structure with an institutionalized conflict of interest remains in place. In the latest version the operative paragraph is 42 (c), with emphasis added.

42. The functions of the Ethics Advisor with respect to protection against retaliation for reporting allegations of wrongdoing are as follows:

(a) to receive complaints of retaliation;

(b) to keep a confidential record of all such complaints;

(c) to do an initial review of the complaint to determine (if necessary, in consultation with OHR and OAPR) if:

(i) the complainant engaged in a protected activity;

(ii) the action alleged to be retaliatory or a threat of retaliation did take place; and

(iii) there is a prima facie case that the protected activity was a contributing factor in causing the action alleged to be retaliatory or a threat of retaliation.

Original GAP Comment

- *"Further, the UNDP Legal Support Office is responsible for receiving reports of allegations of wrongdoing, reviewing those reports, deciding whether an allegation is worth investigating and, in the event of a hearing, representing the administration. (Paragraph 10) Establishing a structure in which the same office that will represent UNDP management decides whether an allegation, possibly implicating management, will be pursued institutionalizes a conflict of interest."*

UNDP Comment: The text does not provide for the Legal Support Office to decide whether an allegation is worth investigating. LSO recommends action based on an investigation, except that in connection with claims of retaliation, the Ethics Advisor recommends appropriate action following the investigation. In addition, OAPR itself receives directly reports of wrongdoing; OHR receives reports of harassment, and Ethics receives complaints of retaliation. Moreover, the role of LSO in UNDP is consistent with

the roles of the legal functions in the other Funds and Programmes and of the Administrative Law Unit in the Secretariat.

GAP Response: Once again, GAP is dealing with a moving target. We were citing the September 20th framework and UNDP now refers to the November, '07 framework. Between the two versions, the division of labor changed, but the conflict of interest for LSO again remains.

November '07 version:
Para. 50. If the investigation finds that retaliation or threat of retaliation is established, the Ethics Advisor shall:

(a) Refer the case to the Director, LSO for disciplinary action against the staff member who was found to have engaged in retaliation;

(b) Make recommendations, *in consultation with the Director, OHR and the Director, LSO,* to the Administrator for appropriate measures aimed, to the extent possible, at correcting negative consequences suffered by the staff member as a result of the retaliatory action.

LSO remains in the position of representing the defendant, deciding on relief for its client's victims, and deciding on discipline to hold its client accountable.

Original GAP Comment
*"4. **Public freedom of expression:** The U.N. policy allows whistleblowers, in certain instances, to make their disclosures outside internal channels, enabling them to go to the public, media or Congress. UNDP, however, defines "external" as outside of "established UNDP internal mechanisms," and cites a preference for 'external' disclosures directly to the Administrator or Office of Internal Oversight Services (OIOS). While these offices are outside of the 'established internal mechanisms,' they are still internal. In other words, in the UNDP Legal Framework, 'external' reports 'must' be preferably made to 'internal' offices."*

UNDP's provision 32 on this point is identical to the UNICEF provision 11. As in any public or private sector organization, the right of freedom of expression does not extend to information that is appropriately treated as confidential for the purposes of internal operations. For this reason, the Legal Framework, para. 32, which is in line with the UN SGB and the UNICEF document, provides for an exception so as not to be in violation of the UN Charter or Staff Regulations.

GAP Response: Although the UNICEF provision is similar to the UNDP policy, neither meets the standards set in the UN SGB policy, which allows for disclosures that are "external" to the UN. This was the cornerstone of the U.N. reform: for the first time at an IGO, the right to public freedom of expression was codified. The agency policies entirely eliminate that First Principle.

Further a whistleblower policy should include a ban on "gag" orders through an employer's rules, policies or nondisclosure agreements that would otherwise override free speech rights and impose prior restraint. Neither the UNICEF nor UNDP policy prohibits gag orders, and both treat institutional confidentiality as more important than public health and safety or the law.

Original GAP Comment

- *"Given the confused and confusing semantics of this provision, it is unlikely that a whistleblower, forced to go to the press with a disclosure about imminent danger to public health, for example, would be protected. (U.N. Section 4; UNDP Paragraph 32) This would functionally eliminate the right to public freedom of expression, which was the primary reform of the U.N. policy. That right is the cornerstone for the 2005 Leahy-Lugar MDB transparency amendments for MDB's now codified in Sec. 1505 of 22 USC 262o et seq. It should apply to any IGO, especially the U.N."*

UNDP Comment: The UN Charter and the Staff Regulations and Rules restrict staff members' rights to speak to external sources, including member states, about internal UN information and affairs so as to protect the independence of the international civil service. This principle is fundamental to the United Nations and is enshrined in Article 100 of the Charter. The retaliation policy is thus a narrow exception to these prohibitions. Staff are encouraged to address matters using internal mechanisms and only resort to external mechanisms strictly in accordance with the policy. Moreover, UNDP has followed the UNICEF policy here.

GAP Response: UNDP does not contradict GAP's argument in any way. UNDP (and apparently UNICEF) complicated the matter of external disclosure for a whistleblower reporting a danger to public health and safety and seeking protection from retaliation.

Original GAP Comment

*"5. **Non-emergency third party disclosures of illegality:** The UNDP substitute adds a poison pill to the scope of protected external disclosures of illegality, even when national or international law is violated and internal mechanisms are unavailable. Whereas the U.N. policy allows a whistleblower to make a public disclosure to avoid "violations of national or international law" (Section 4), the UNDP Legal Framework (paragraph 31) enables whistleblowers to report externally only if they are seeking to avert a "violation of national or international laws with immediate adverse impact on life or property." In addition to drastically shrinking potentially protected disclosures, it is impossible for any whistleblower to know the gravity of the result until after the fact. It means employees must guess whether they have rights before breaking ranks to challenge illegality."*

UNDP Comment: UNDP again adopted the UNICEF approach here – the provisions are identical. As already stated, reporting outside of the Organization should be exceptional and the provision is making that clear; otherwise reports should be made using existing mechanisms as required in the UN Charter and the Staff Regulations.

GAP Response: The fact that UNICEF also adopted a more restrictive standard for external disclosure does not make the UNDP policy any more respectable.

Original GAP Comment

*"6. **Protection against passive retaliation:** The U.N. policy covers "any direct or indirect detrimental action recommended, threatened or taken" because of protected conduct. (Section 1.4) This approach protects against common forms of passive retaliation, such as refusal to give assignments, or denial of training/resources/access to information. The UNDP substitute eliminates the ban on passive reprisals, requiring that "the action ... did take place." (Paragraph 41)"*

UNDP Comment: The Legal Framework does not exclude passive retaliation. The point is that whatever the form of retaliation, the individual is requested to provide substantiation in submitting the complaint. This wording is identical to the UNICEF policy, para. 13.

GAP Response: With respect to passive retaliation, once again, the fact that UNICEF also adopted a more restrictive standard does not make the UNDP policy any more respectable.

Original GAP Comment

*"7. **Whistleblower's legal burden of proof:** No matter what the stated rights and due process rules, whistleblower laws are traps to rubberstamp reprisals without fair standards to decide who wins and loses. The U.N. policy specifies that an employee's burden is that protected whistleblowing was relevant as a "contributing factor" to alleged retaliation. This objective test is the standard in every American whistleblower law since 1989, as well as in OAS, World Bank and African Development Bank policies. UNDP's substitute has no objective test. It can vary arbitrarily from case to case based on subjective judgments of the ethics-HR team or Administrator. The UNDP Legal Framework also gratuitously shifts the burden of proof to employees in summary dismissal cases. (Paragraph 2.7.2 (b))"*

UNDP Comment: GAP is mistaken: they refer to the provision in the Rules of procedure of the DC (Annex I to the Legal Framework) which explains under what conditions a former staff member can file an appeal of the summary dismissal imposed on him/her. It states that "the requesting party bears the initial burden of showing the invalidity or disproportionality of the summary dismissal". This is normal practice and fully consistent with the jurisprudence of the U.N. Administrative Tribunal. This provision is related to disciplinary action and has nothing to do with retaliation.

GAP Response: UNDP does not recognize that summary dismissal is often a form of retaliation, and without adequate uniform ethical standards a whistleblower could find himself or herself before a disciplinary committee.

Original GAP Comment

"Normally the burden of proof is on the moving party, not the alleged victim. This modification cancels the second cornerstone for any credible whistleblower policy – realistic, modern legal burdens of proof. "

UNDP Comment: If the Ethics Advisor feels there is a prima facie case, it is referred to OAPR for investigation. Based on that investigation, the Ethics Advisor will recommend appropriate action. GAP is here referring to the disciplinary process and the burden in that context is established in the jurisprudence of the U.N. Administrative Tribunal.

GAP Response: GAP wrote this analysis before UNDP had an appointed Ethics Adviser. As the Legal Framework now stands, this process is still unclear, and it is quite feasible that a whistleblower still could confront a disciplinary committee.

Original GAP Comment
*"8. **Poison pill interim relief**: Both policies provide for interim relief, but the language in the U.N. policy creates a legitimate remedy: appropriate measures to safeguard the interests of the complainant may only be taken "with the consent of the complainant." The UNDP Legal Framework substitutes a Trojan horse by saying that decisions on interim relief will be made "in consultation with the complainant," which indicates that the whistleblower does not have veto authority over the type of interim relief awarded. These measures, such as transfer or administrative leave, can and often are used as forms of harassment or maneuvers designed to isolate a whistleblower and deny him or her access to evidence. As such, they should only be applied if and when the whistleblower has expressly agreed to them. (U.N. Section 5.6; UNDP Paragraph 46)"*

UNDP Comment: UNICEF also takes this approach to consultation, and UNDP's policy is based on that approach.

GAP Response: Once again, why are there different standards for consultation in different UN agencies and why does UNDP adopt the weaker of the two?

It is also worth noting that UNICEF's approach to interim relief is slightly better than UNDP's. According to UNICEF's whistleblower protection policy (16 January 2008 version)[11], the Ethics Officer can recommend interim relief measures to the Executive Director. UNDP, on the other hand, allows the Ethics Advisor to make interim relief suggestions "in consultation with OHR and OAPR," a conflict of interest that does not exist in the UNICEF policy.

"Other Issues of Concern"

Original GAP Comment
"A series of additional differences between the two policies are of concern. These include, but are not limited to:

[11] It appears that UNDP has referenced the old version of UNICEF's whistleblower protection policy (20 April 2007) in their responses rather than the new version (16 January 2008).

*9. **Diluting language in the U.N. policy:** It is worth noting that the UNDP Legal Framework often borrows paragraphs virtually verbatim from the U.N. policy, deleting (or adding) only select words and phrases. In doing so, the UNDP Legal Framework weakens the original policy developed for the Organization. For example, the UNDP Legal Framework (Paragraph 41) says (emphasis added to show UNDP language not found in the UN policy):*

> *The functions of OAPR with respect to protection against retaliation for reporting misconduct are as follows:*
> *(d) to receive complaints of retaliation;*
> *(e) to keep a confidential record of all such complaints;*
> *(f) to do an initial review of the complaint to determine **(if necessary, in consultation with OHR)** if:*
> *(i) the complainant engaged in a protected activity;*
> *(ii) **the action alleged to be retaliatory or a threat of retaliation did take place; and***
> *(iii) there is a prima facie case that the protected activity was a contributing factor in causing the action alleged to be retaliatory or a threat of retaliation.*

UNDP Comment: This is identical to the UNICEF policy except that OAPR has been changed to the Ethics Advisor and the consultation can be with OHR or OAPR. In any case, the consultation is determined by the Ethics Advisor.

GAP Response: Our original comment is undisputed.

Also, UNICEF's new whistleblower policy (16 January 2008) is *not* identical to UNDP's language. Although section (ii) is in the UNICEF policy, the language "in consultation with OHR" is not included. Therefore, UNICEF's policy does not have the conflict of interest that is introduced when OHR is able to consult on an initial review.

Original GAP Comment

- *"This section, which is nearly identical to section 5.2 of the U.N. policy, deletes or rewords specific provisions in such a way as to prejudice the interests of the whistleblower. Once again, the participation of OHR is introduced into the initial review, which institutionalizes collusion with the defendant and cancels credible impartiality. Moreover, the burden of proof on the whistleblower has been subtly but substantially increased by requiring the complainant to establish that "the action alleged to be retaliatory... did take place." Often, the retaliatory measure is, in fact, a lack of action rather than an explicit action. For example, a staff member's contract is not renewed, or a promotion is not awarded. Under the provisions of the UNDP Legal Framework, the whistleblower in such a circumstance must now establish that non-renewal was, in fact, a retaliatory action."*

UNDP Comment: Evidence of retaliation could be a legitimate application of regulations, rules and administrative procedures, including those governing evaluation of performance and non-extension or termination of appointment/employment (para. 52) The burden of proof here, consistent with the Secretariat document, provides: "However, in applying such regulations, rules and administrative procedures to any UNDP staff member, UNDP management must prove by clear and convincing evidence that it would have taken the same action absent the protected activity." Whatever the circumstances of the retaliation, the individual can provide the substantiation and the matter is reviewed based on the information provided and the investigation.

GAP Response: Substantiating retaliation is not the same as determining that an action did take place. Much retaliation is passive (the training not given, the raise not awarded, the promotion withheld). See above.

Original GAP Comment

*"10. **Ignoring the realities of U.N. internal justice reform:** In December, the UN General Assembly passed a resolution establishing a new system for the administration of justice (A/62/597). This resolution promotes a unified internal justice system and creates a single, integrated Ombudsman office for the UN Secretariat and all funds and programs. The General Assembly is also trying to create a more coherent and unified U.N. structure at the country level through the establishment of Joint Offices and the "Delivering as One" pilot initiative. But at the same time that the U.N. is promoting the idea of a more unified organization, it is taking whistleblower rights in the opposite direction, creating separate systems with no unified standards. The new internal justice system, which has been in development for the past two years, will not function as intended if the funds and programs may select elements that will apply to them and reject others that are inconvenient. The nature of an effective justice system is that it applies to all in the same way, with the same processes, standards, relief and penalties. If the UNDP Legal Framework selectively substitutes itself for the terms of the U.N. policy, the General Assembly's reform has been disregarded and the process of reform that is underway has been successfully and significantly subverted."*

UNDP Comment: GAP repeatedly exaggerates the distinctions between the UN approach and that taken by UNDP, UNICEF and UNFPA. The few differences highlighted will not "subvert" the process of reform, which will be an ongoing and collaborative process across the organizations involved. UNDP policies are based on the UN approach and only depart where this is consistent with either the pre-existing UNICEF or UNFPA policy for sound operational reasons.

In any case, the latest SG Bulletin of 30 November brings the Ethics Officers together under the Chairmanship of the UN Ethics Advisor to ensure consistency and coherence and an appeals mechanism is contained therein. UNDP is committed to working within this system and making revisions to its policies in the interests of its own Staff, the effective functioning of the organization, and the coherence of the U.N. system as a whole.

GAP Response: GAP will soon release an analysis that exhaustively details how the whistleblower protection policies differ and the dimensions of the developing confusion within the UN system. UNDP is right here, in one sense, however: UNICEF, too, has adopted a lower standard of protection for whistleblowers than the UN Secretariat.

UNDP is not considering the implications for the Organization as a whole of the splintered Ethics Offices and the powerless UN Ethics Committee established by SGB/2007/11. For example, ST/SGB/2007/11 states that:

> "In order to safeguard and ensure that all matters associated with the discharge of duties and responsibilities of the Ethics Office of the separately administered organ or programme are independent and free from any undue pressure and influence, *solely at the discretion of the head of a separately administered organ's or programme's Ethics Office,* he or she may refer any matter within the Office's area of responsibility, at any time, to the Chairperson of the United Nations Ethics Committee for advice and guidance, and shall inform the Executive Head of the separately administered organ or programme of the referral made." (paragraph 4.1, emphasis added)

The Bulletin also states that "Each Ethics Office of a separately administered organ or programme shall be headed by an Ethics Officer, who shall function independently and report directly to the Executive Head of the respective separately administered organ or programme." (paragraph 2.1). Given this:

a) If a whistleblower came forward with allegations that implicated senior managers in a program, how would the Ethics Officer deal 'independently' with this conflict of interest if he or she reports directly to the head of the program?
b) Would an Ethics Officer be *required* to refer such a conflict of interest case to the UN Ethics Committee?
c) What standards would apply to determine that a conflict of interest existed?
d) Because the program Ethics Officer reports directly to the Executive Head, could the Executive Head of the Program overrule the Program Ethics Officer's decision to refer a matter to the UN Ethics Committee?

Moreover, these are only a few of the problematic issues created by ST/SGB/2007/11.

Director
Washington Liaison Office
U.N. Development Programme
1775 K Street NW, Suite 420
Washington, DC 20006

April 18, 2008

Senator Norm Coleman
Ranking Minority Member

Senator Carl Levin
Chairman

Permanent Subcommittee on Investigations
United States Senate
Washington, DC 20510-6250

Dear Senators Coleman and Levin,

With reference to your letter to me of March 31, please find attached UNDP's responses to the follow-up questions from the Subcommittee briefing of January 24. The first four of the five questions involve substantial responses, which we have done our best to prepare in the short time available. We would welcome the opportunity to brief your staffs further in person if this would be helpful.

We appreciate the opportunity to provide answers on these issues, and do so with the same understanding which you have previously accorded our communications with the Subcommittee. Permit me to reiterate, therefore, that nothing in UNDP's voluntary participation through oral remarks or written statements to the Subcommittee shall be deemed a waiver, express or implied, of the privileges and immunities of the United Nations or its subsidiary organs under the 1946 Convention on the Privileges and Immunities of the United Nations.

As UNDP Administrator Kemal Derviş made clear in accepting your invitation for UNDP to appear at the January 24 briefing, we are committed to assuring that UNDP retains the confidence and support of members of the United States Senate, particularly on matters relating to the transparency and accountability of our Organization. We will continue to respond to questions and concerns raised by the Subcommittee as thoroughly and expeditiously as possible.

Sincerely,

{*Signature*}

Frederick S. Tipson

Permanent Subcommittee on Investigations
EXHIBIT #23

UNDP Responses to Follow-Up Questions
to the January 24 Briefing on UNDP Operations in the DPRK (North Korea)
from the Permanent Subcommittee on Investigations of the U.S. Senate

April 18, 2008

1. How does UNDP determine that its programs contribute to or increase human development? In your response, please set forth the metrics used by UNDP in making this determination.

UNDP defines and measures human development on global and national levels through a systematic process of consultation and collaboration with national government officials, major donor governments and non-governmental agencies, and other United Nations organizations. The hallmark of UNDP's approach to development is the coordinated application of expertise, training and technical assistance to build the capacity of institutions and individuals within countries and communities to achieve economic, political and social development.

The strategic process proceeds from an overall Strategic Plan (revised for 2008-2011)[1], which is then applied on a country-by-country basis. It concentrates UNDP's programs in four areas: democratic governance, poverty reduction, conflict prevention and reconstruction, and energy & environment. The key step, therefore, is the preparation of the UNDP national Country Program, the programming instrument which outlines the main initiatives/activities led by UNDP in a 5-year period in support of national results in each of these focus areas. To facilitate monitoring, measuring and reporting on the progress of these initiatives, Country Programs include the identification of national *Goals*, the systematic definition of a series of *Expected Outcomes and related* concrete *Outputs* designed to achieve those outcomes, and the *Indicators*, or metrics, to measure them. The *Outcomes* are the longer term expected development changes which UNDP contributes to with Government and other partners to achieve those goals. The *Outputs* are UNDP's contribution to achieving those outcomes produced by programmes and projects under its responsibility. Each country team reports its progress on an annual basis and these results are periodically assessed by an independent Evaluation Office, whose reports are available to the public. This overall framework and related terminology to measure results is used and understood by the entire international donor community.

The vetted data compiled from all country offices is aggregated annually for presentation to the UNDP Executive Board of 36 member states, of which the United States is an active member. The Mid-Term Review of the *Strategic Plan*, to be submitted in June 2010, will provide the Executive Board with results outlined in the *development results framework* based on evidence provided by project and outcome evaluations, Assessments of Development Results, joint assessments and partner surveys. In addition to country level evaluations, the Mid-Term Review will also consider the findings from strategic, regional and global evaluations.

Perhaps the most effective way to understand how UNDP measures results is to illustrate how it works for a particular country. Attached, therefore, is a description of how this process works in the Philippines.

2. UNDP operates or administers programs in Iran, Syria, Zimbabwe, territory under the jurisdiction of the Palestinian Authority, and Burma. The governments of these countries currently face sanctions by the United States government or are under trade restrictions mandated by actions taken by the United Nations Security Council, or both. With respect to each government identified above, please explain what measures UNDP takes to ensure that such sanctions or restrictions are not circumvented through the host government's relationship with UNDP.

---

[1] http://www.undp.org/execbrd/word/dp07-43_updated.doc

As summarized below, UNDP's government relationships and development programs in the countries listed above involve activities which are not generally addressed by U.N. or U.S. sanctions. UNDP's programs focus on human and institutional capacity building and policy reform and do not typically involve the transfer of resources to individuals or the provision of significant quantities of the kinds of products or materials which are the focus of trade or investment restrictions. Significant amounts of goods and services are procured locally or regionally.

UNDP consults actively with the U.N. Secretariat to ensure that UNDP country programs, in both design and implementation, are in accord with any applicable Security Council sanctions. Likewise, UNDP conforms its activities to the resolutions and decisions of its governing bodies, the General Assembly, the Economic and Social Council and the UNDP Executive Board. In view of UNDP's status as a subsidiary organ of the United Nations and the privileges and immunities that the Organization enjoys, any application of national law to the United Nations must take into account this international status, including the privileges and immunities set out in the Convention on the Privileges and Immunities of the United Nations and various other treaties which include prohibitions on export restrictions and immunity from legal process. As a member of UNDP's Executive Board, acting through the Department of State and the U.S. Mission to the United Nations, the United States government exercises close supervision of UNDP's programs and operations—with particular attention to those countries subject to U.S. sanctions or restrictions.

Burma (Myanmar)

In carrying out its program in Burma, UNDP adheres to the stipulations of the U.S. State Department, regarding the following four criteria:

1. the program focuses on the needs of the poor;
2. the program is implemented only through international organizations or private voluntary organizations deemed independent of the Burmese Government;
3. the program provides no financial, political or military benefit to the Burmese Government; and
4. the program is carried out only after UNDP consults with the leadership of the Burmese opposition.

Each year the State Department requires UNDP to submit a report detailing its adherence to these conditions.

Since 1993, UNDP activities in Myanmar have been carried out strictly within the framework established in UNDP Governing Council Decision 93/21 and Executive Board Decisions 96/1, 98/14, 2001/15, 2003/2, 2004/2, 2005/3, 2005/42, 2006/2 and 2006/31. Accordingly, UNDP assistance in Myanmar is provided through a programmatic framework known as the "Human Development Initiative" (HDI). Projects are implemented either directly by UNDP or through specialized United Nations Agencies, with international and national non-governmental organizations. The HDI works directly with communities to address basic humanitarian needs in the areas mandated by the Executive Board, namely, primary health care, the environment, HIV/AIDS, training and education and food security. As such, the HDI also strictly adheres to the four U.S. conditions cited above.

Iran

The UN Security Council has prohibited the export to Iran and the import from Iran of a specific list of items related to Iran's nuclear program. The Security Council has also imposed financial restrictions and a travel ban on named individuals and entities involved in proliferation-sensitive activities. The United States currently prohibits the import to the U.S. of Iranian goods and services, the export to Iran of U.S. goods and services, and the financing of such trade. The U.S. also prohibits U.S. persons from making new investments in Iran. The U.S. sanctions explicitly permit employees of the United Nations and other international organizations to engage in transactions for the conduct of official business in or involving Iran. UNDP's programs in Iran address the following objectives:

- Integrating the Millennium Development Goals (MDGs) into Iran's development plans. UNDP assists in the strengthening of national and provincial capacity for incorporating the MDG targets for 2015 into development planning and statistical frameworks.

- Strengthening democratic governance and the rule of law. UNDP assists in increasing the effectiveness of the national parliament to formulate legislation and perform oversight by strengthening the capacity of the parliament's research center. UNDP assists in increasing local political participation through institutionalizing consultations between government and civil-society organizations at the local level.

- Improving economic performance and employment generation. UNDP supports the establishment of a national framework for sustainable macroeconomic planning for poverty reduction. UNDP conducts community development programs that target the poor, unemployed, women and youth through small-enterprise development, income generation, and increased participation of civil-society organizations.

- Sustainable development and disaster management. UNDP supports the integration of environmental concerns into development planning at the national and local levels. UNDP strengthens national disaster preparedness, mitigation and recovery--with a key component of this work being the recovery and reconstruction of the city of Bam following the earthquake in 2006).

Palestinian Territories

The United States prohibits U.S. persons from dealing with designated terrorist organizations or individuals. UNDP's program in the Palestinian territories includes the following areas:

- Promote sustainable livelihoods and economic recovery. UNDP implements the Global Fund program to fight HIV/AIDS. UNDP aids the government in integrating the MDGs into national planning. The program supports the improvement of social services through the construction of schools, hospitals, community centers, and water and sewage systems. It also supports efforts to combat land desertification and degradation through the reclamation of dump sites and the rehabilitation of landfills. UNDP promotes equitable economic development through technical and vocational training for workers, management training for entrepreneurs, and microfinance for the poor. The program strengthens the management of commercial farms and agricultural cooperatives.

- Enhancing democratic governance through the development of efficient, responsive and accountable institutions. UNDP has played a key role in establishing the Palestinian Central Electoral Commission, and it has supported voter education in the presidential, legislative and local elections. The program also strengthens the legislative and oversight roles of the national legislature, and fosters increased ties between elected officials and their constituencies. UNDP supports local governance by improving fiscal and administrative decentralization, developing the capacity of the Ministry of Local Government, and increasing the effectiveness and efficiency of local-government bodies. And UNDP supports the development of the justice sector, with a particular emphasis on the independence of the judiciary. UNDP will assist the government in developing an overall strategy for the justice sector—including the setting of priorities and targets, the review of the overall legislative framework and institutional mandates, the training of judges and prosecutors, and the construction of courthouses and detention centers.

Syria

The United States prohibits the export of U.S. goods and services to Syria. It also blocks the property in the U.S. of all Syrian officials who have supported any of the following activities: terrorism; the military presence in Lebanon; the pursuit of chemical, biological or nuclear weapons; the undermining of U.S. and

international efforts to stabilize and reconstruct Iraq; or the assassination of former Lebanese Prime Minister Rafiq Hariri. UNDP's programs in Syria are in the following areas:

- Poverty Reduction. UNDP seeks to improve the trade and investment climate by supporting the liberalization of trade policies and the reform of investment-related legislation. The program targets the unemployed (especially women and youth) for skills training and micro-credit.

- Democratic Governance. UNDP seeks to increase the accountability of executive bodies through the passage of anti-corruption legislation and the strengthening of the capacity of legislative bodies and civil-society organizations to exercise oversight. The program also seeks to strengthen local governance by reforming electoral laws, establishing electoral commissions, carrying out civic education, and increasing women's political participation.

- Energy and Environment. UNDP seeks to improve the environment by reforming and enforcing national environmental legislation, especially related to water resources. The program also introduces cleaner technology in the production of agricultural products, and assists local governments in managing solid waste and in expanding access to renewable energy sources, potable water and sanitation.

- Crisis Prevention and Recovery. UNDP seeks lessen the risk and impact of natural disasters by establishing a comprehensive disaster-management system. Such a system will establish clear lines of responsibility for the national government and international organizations. It would also develop the capacities in this area of the private sector and civil society.

Zimbabwe

The United States prohibits U.S. persons or anyone in the U.S. from engaging in any transactions with any individual, entity or organization found to be undermining democratic institutions and processes in Zimbabwe. Prohibited transactions include exports, imports and trade brokering or financing. The United States also blocks the property in the U.S. or under the control of a U.S. person belonging to the above individuals, entities or organizations. UNDP's programs in Zimbabwe address the following objectives:

- Achieving the Millennium Development Goals. UNDP seeks to strengthen the national capacity to formulate, implement and monitor pro-poor policies through the creation of a national MDG-based national development strategy and a national MDG-based monitoring and evaluation framework.

- Promoting democratic governance and the rule of law. UNDP seeks to advance democratic governance by strengthening the capacity of parliament and the judiciary. The program also supports public-sector reform through the introduction of results-based systems for budgeting and personnel management.

- Improving food security and sustainable management of the environment. UNDP seeks to improve agriculture and the environment by supporting agricultural extension and research services, and management of water and energy.

- Reduce the spread of HIV infection, improve the quality of life of those infected, and mitigate the impact of HIV/AIDS. UNDP seeks to enhance the management and coordination of the national response to the HIV/AIDS crisis. It does so through support for planning and service delivery to ministries, parliament, civil society and the private sector. UNDP also supports the capacity of local pharmaceutical companies to produce affordable antiretroviral drugs.

3. The report released by the Subcommittee determined that the North Korean government engaged in deceptive financial practices by transferring close to three million dollars of its own funds out of North Korea into western financial institutions using a bank account established to receive and disperse UNDP funds intended for development projects, and by referencing UNDP in the wire transfer documents. Moreover, the report concluded that UNDP paid funds directly to an entity known as the International Finance and Trade Joint Company, a Macau-based entity that appears to have acted as a funding conduit for the North Korean government.

   a. Is UNDP aware of any similar instances of a country misusing a bank account intended to be used solely for UNDP purposes?

   b. Please explain what measures UNDP will take to ensure that such conduct will not recur in North Korea should UNDP resume operations in that country. Moreover, please explain what measures UNDP will take to ensure that similar misconduct is not occurring in any other country in which UNDP operates.

As a preliminary matter, it is important to emphasize that, contrary to the introductory statements above, the Staff Report of the Subcommittee did not find that the DPRK government referenced UNDP in the wire transfer documents in question. The documents highlighted in pages 33-36 of the Report (from April-Sept, 2002), which were bank transfer records of Banco Delta Asia, not the North Korean government, referenced the "National Coordinating Committee for UNDP" or "NCC for UNDP", the entity created by that government to receive the limited amount of UNDP funds provided directly for development programs. It should also be re-emphasized, as noted in the introductory statement above, that the funds in question belonged to the North Korean government and not UNDP.

The document designated Exhibit #9, does show "UNDP/Pyongyang" as the entity requesting funds to be paid to a vendor in Singapore, Sindok Trading Company, which supplied computers for a specific project. Again, this means that Banco Delta Asia, not the North Korean government, referenced UNDP. Furthermore, this transaction, and multiple others which were discussed in detail with the Subcommittee Staff, involved legitimate payments by UNDP/Pyongyang to legitimate suppliers of goods and services, and in all cases the goods and services were provided in good order.

Also contrary to the statement in the last sentence of the introductory paragraph, UNDP did not pay funds "directly to an entity known as the International Finance and Joint Trade Company," based in Macau, nor was this a finding of the Staff Report. UNDP/Pyongyang used the DPRK Foreign Trade Bank (FTB, the only option available) to make payments to suppliers in places like Singapore and Japan. That the Korean banking authorities routed the money via BDA, and apparently also IFTJ, was not something UNDP was aware of or could have controlled. The fact remains that, however UNDP's money was routed, it received the goods and services it paid for. At no time did it make direct payments to an entity called IFTJ.

In answer to the specific questions;

a. UNDP is not aware of any similar instances of another country misusing a bank account intended to be used to receive UNDP funds.

b. UNDP has no plans to resume operations in North Korea. Any consideration of doing so would involve extensive consultations with UNDP's Executive Board in which the United States government would be actively involved.

UNDP will continue to exercise close supervision over the expenditure of funds to assure that resources directed toward development programs are appropriately applied and accounted for. We will continue to explore approaches that could be implemented effectively to assure that accounts designated to receive UNDP funds which reference the organization (as in the case of the "NCC for UNDP" in North Korea) are not utilized for inappropriate purposes, and we will consult further with Subcommittee Staff in that regard.

4. UNDP officials told the Subcommittee that the UNDP Executive Board was likely to approve a proposal tp increase access to its audit reports at its January 2008 meeting. Under the proposal, UNDP would give UNDP Executive Board members routine access to its future audit reports. Was this proposal approved at the January 2008 meeting? If not, what is the status of efforts to provide increased access to UNDP audit reports?

As part of a comprehensive oversight policy presented to UNDP's Executive Board in late January (DP/2008/16), UNDP senior management did propose to make internal audit reports available to Member States upon request within a specific framework and agreed modalities. This policy had been discussed at the second regular session of the United Nations System Chief Executives Board for Coordination (CEB) for 2007, which endorsed the recommendation on the disclosure of internal audit reports, providing for "disclosure to Member States, respecting the management prerogatives of executive heads and subject to conditions and criteria to be defined within the context of an organization policy that should not be applied retroactively" (CEB/2007/2 para 50). Following discussion of this policy at the UNDP Executive Board meeting, management was asked to elaborate the modalities for the review of internal audit reports in accordance with the CEB endorsement. In its oral decision, the Executive Board expressed the wish that this matter be revisited at the Executive Board's second regular session in September 2008.

Pending further consideration of the Executive Board in September, senior management continues to remain accountable to the Executive Board for the discharge of its responsibilities. Against this background, senior management remains willing to consider providing access to certain audit reports in line with the policy that was proposed to the Executive Board in January 2008. However, it is important to note that the framework established by the CEB applies to the whole UN system and was endorsed by the UN Secretary-General, specifically excluded access to reports prepared prior to the establishment of a new organization policy on access. The policy would therefore not include access to internal audit reports prepared prior to the presentation of the policy in January 2008. However, should any Member State have speeific concerns over a particular aspect of UNDP's operations, whether covered by an earlier audit or not, senior management would bring these concerns to the attention of the UNDP Director of Audit and Investigation, which makes the final determinations on where to devote audit resources.

5. What is the current status of the Independent Investigative Review (IIR)? What is the status of the review specifically in regard to the allegations by Artjon Skurtaj that he was retaliated against by UNDP for blowing the whistle on mismanagement in UNDP operations in North Korea? Please provide a copy of any written analysis produced by the IIR with your responses.

The External Independent Investigative Review (IIR) is expected to complete its work and issue its Report to the UNDP Board by the end of May. Until that time, UNDP does not have access to any written analysis produced by the IIR or any written record of its deliberations. With respect to the specific allegations of Artjon Shkurtaj, the Terms of Reference of the IIR, as agreed with members of the UNDP Executive Board, provide the following:

"5). A complaint has been lodged that UNDP retaliated against an individual for "blowing the whistle" on irregularities in its operations in DPRK. In this respect, review the complainant's allegations related to these operations and the alleged retaliation, make every effort to establish the facts, including about the specific events in DPRK and regarding application of relevant protection policies. After completing the review, the Independent Review Team shall share its findings on this aspect of the Independent Investigative Review with the Director, UN Ethics Office. The Director, UN Ethics Office, could then provide an opinion and formulate recommendations, as may be appropriate, on the retaliation allegations in light of these findings. If the UN Ethics Office requires further investigation of this specific issue, after having reviewed the findings of the investigative review, it can arrange for such follow-up before providing its recommendations, with the full cooperation of UNDP. "

Therefore, it is our expectation that the IIR will address these issues in its Report, but we do not have any information about the current status of their investigation in that regard.

Attachment

Philippines Country Program

I. "Setting forth" the "metrics"

The Philippines has signed a five year Country Programme –2005-2009—with UNDP. The Country Programme has the following four overarching national *Goals* which guide UNDP's –and the rest of the UN system's --interventions in the country:

1). By 2009, the policy and planning framework in the country more extensively incorporates effective, people-centered approaches to development planning, budgeting and monitoring, with a special focus on women, children and vulnerable groups.

2). By 2009, good governance reforms and practices are institutionalized by Government, local Government units (LGUs), civil society organizations, and the private sector, toward poverty reduction, protection of rights and sustainable human development.

3). By 2009 increased capacity of stakeholders to protect/enhance the quality of the environment and sustainably manage natural resources.

4). By 2009, the violent conflict has been reduced and human security and the culture of peace and have been promoted nation wide.

We will in particular examine how one of the 3 UNDP *Outcomes* in support of the 4th national *Goal* in the CP is defined and measured. As indicated in Annex 1, *Outcome 3* is : *Conflict affected communities have improved access to basic services, increased incomes, and participate in Governance.* Some of the general indicators are: Percentage increase in access to basic services; Percentage increase in participation in local governance institutions and processes; and Percentage increase in the average income of families in conflict affected communities.

The 5 *Outputs* to be produced by projects and programmes in support of Outcome 3 are: 3.1-- Conflict-affected areas transformed to peace-building communities able to sustain local peace and development plans, with improved access to basic services/livelihoods and fully integrated in the local socio-economic and political mainstream; 3.2 DDR programmes supported and operationalized, including rehabilitation of affected communities; 3.3 Mechanisms institutionalized for the participation of conflict affected communities and former combatants in Governance processes at the Barangay and municipal levels; 3.4 Community-based peace initiatives such as, among others, Peace Zones, Sanctuaries for Peace, and Peace and Development Communities; and 3.5 Healing and reconciliation processes supported. Each of the outputs also has indicative targets and indicators that are specifically defined annually.

II. Measuring the results:

Against this baseline, we will illustrate the progress towards the achievement of *Outcome* 3 in one random year by examining the relevant part of the 2006 *results report* prepared annually by the Philippine's Country Office for all *Outcomes* (see Annex 2). Based on the specific annual targets set for 2006 for *Outcome* 3 the *statement of progress* in the report indicates that there has been significant progress towards its attainment as illustrated by the following concrete information in the report e.g.,: Social mobilization activities initiated and ongoing in 86 additional communities, in addition to 180 communities established in Phase 3 of the Mindanao programme.

Members of Peace and Development Communities (PDCs), including women, in 100 municipalities in 15 provinces in Mindanao are involved in activities to improve access to shelter, water, nutrition, health and livelihood opportunities. The framework for livelihood support to former combatants in the Cordilleras has been finalized. Thirteen Barangays (villages) in three provinces affected by armed conflict were provided with small-scale and quick impact community level enterprises/agriculture and water supply system projects.

Annex 1

Goal --4) By 2009, the violent conflict has been reduced and human security and the culture of peace and have been promoted nation wide. (2005--2009)

Programme component	Programme outcomes	Programme outputs	Indicative output targets and indicators	Implementing partners
UNDP Goal 3: Crisis prevention and recovery	3:Conflict affected communities have improved access to basic services, increased incomes, and participate in governance *Indicators/targets:* Percentage increase in access to basic services • Percentage increase in participation in local governance institutions and processes. • Percentage increase in the average income of families in conflict affected communities	3.1 Conflict-affected areas (Southern Philippines; insurgency areas) transformed to peace-building communities able to sustain local peace and development plans, with improved access to basic services/livelihoods and fully integrated in the local socio-economic and political mainstream	**Target** Conflict-affected areas fully transformed to peaceful communities . **Indicators** • Number of communities with peace and development plans • Number of individuals and communities engaged in mainstream socio-economic and political activities • Number of basic services facilities working in conflict-affected areas	National, local Government, NGOs/ CSOs, donors, etc.
		3.2 Programmes for DDR of former combatants supported and operationalized, including rehabilitation of Communities	**Target** Support development of DDR programmes consistent with on-going peace processes **Indicators** • Evidence of DDR initiatives supported and implemented • Number of former combatants engaged in DDR activities • Number of basic services facilities working in conflict areas	
		3.3 Mechanisms institutionalized for the participation of conflict affected communities and former combatants in Governance processes at the Barangay and municipal levels.	**Target** Mechanisms for participation institutionalized in conflict-affected areas communities **Indicators** • Participatory mechanisms institutionalized in conflict-affected areas	
		3.4 Community-based peace initiatives such as, among others, Peace Zones, Sanctuaries for Peace, and Peace and Development Communities.	Target Local peace initiatives supported, recognized and respected by critical actors including government and armed groups Indicators • No. of Barangay/ Municipal Council Resolutions, local manifestos recognizing/endorsing community-based peace initiatives • Community-initiated ceasefires respected by combatants	
		3.5 Healing and reconciliation processes supported	Target Reconciliation processes integrated in local peace-building programmes Indicators • Mechanisms, venues for healing and reconciliation established in conflict-affected communities • Number of peace education and advocacy campaigns conducted & traditional practices promoted	

Annex 2

2006 results report Philippines Country Programme (Outcome 3):

"Intended Outcome 3: Conflict affected communities have improved access to basic services, increased incomes, and participate in governance

Annual target for 2006: 250 Peace Development Communities (PDC) expanded in terms of local peace initiatives including affirmative action for selected marginalized sectors in conflict-affected areas, as well as communist insurgency areas through the provision on basic services and infrastructures, livelihood opportunities, and participation in governance.

Statement of progress in achieving annual target : Comprehensive and sustainable reintegration programmes for IDPs, Returning refugees and ex-combatants in place. Statement of Progress: Social mobilization activities initiated and ongoing in 86 additional communities, in addition to 180 communities established in Phase 3 of the Mindanao programme. Members of Peace and Development Communities (PDCs), including women, in 100 municipalities in 15 provinces in Mindanao are involved in activities to improve access to shelter, water, nutrition, health and livelihood opportunities. Formulation of Peace and Development plans. The framework for livelihood support to former combatants in the Cordilleras has been finalized. Thirteen Barangays (villages) in three provinces affected by armed conflict were provided with small-scale and quick impact community level enterprises/agriculture and water supply system projects. Both duty bearers and communities are developing skills and mechanisms for the participation of conflict-affected communities and former combatants in local governance processes, such as membership in local special bodies. Traditional and cultural forms, including the arts, are being harnessed to support community healing, dialogue and reconciliation processes; and foster increased awareness of rights.

Rating of progress: Fully Achieved

The report also provides information on a number of cross cutting that other issues that are important for sustainability:

Questions: Have efforts in this area supported improved capacity of national and sub-national agencies in service delivery for the poor? Have efforts in this area influenced national, sectoral and local development strategies to incorporate MDG targets?

Answers: Formulation of Peace and Development plans involving local line agencies, local Government planning offices, former combatants, and peace and development advocates provide venue for capacity development in integrated conflict responsive development planning. Sub-national offices such as the Mindanao Economic Development Council (MEDCO) and the Autonomous Region in Muslim Mindanao (ARMM), and Local Government Units (LGU) provide oversight and coordination functions for service delivery to these areas. The integrated approach (water, nutrition, livelihood, peaceful settlement of conflicts, interethnic dialogue, etc) contributes to the achievement of targets for MDG goals 1 and 4, and supports the principles of the Millennium Declaration.

Questions: Have efforts in this area supported the capacity of non-state stakeholders (civil society, media, business, and academic institutions) to access information and engage proactively in development priorities? Have efforts in this area facilitated policy dialogue among key state and non-state stakeholders aimed at building broad-based consensus around international, national or local development goals and targets?

Answers: Policy dialogue among key state and non-state stakeholders facilitated through Technical Working Groups in 17 provinces in Mindanao and a Peace Summer Camp among local leaders in Negros Occidental came up with recommendations to address the twin issues of natural resource extraction and social unrest in their communities. Stakeholders from PDCs were able to identify core conflict issues as well as workable strategies and common approaches to better respond to armed conflict. Dialogue and conflict management processes in place in 13 Barangays in three provinces through the creation of multi-sectoral peace councils or support to existing local mechanisms. Framework that incorporates sustainable integrated area development elements (i.e., comprehensive approach to poverty and development, environment and development, governance and cultural freedom) to strengthen the PDC framework has been developed and will be piloted by the South Cotabato provincial Government.

Question: Have efforts in this area led to specific policies and programmes that benefit women in the form of dedicated interventions, financial commitments and other forms of resource allocation?

Answer: Three-year Women Peace and Development Programme formulated, based on consultations in eight ethnic communities in Northern and Southern Philippines. Dedicated interventions for women in Botica sa Barangay (Village Drugstores) managed by women Peace and Development Advocates. Around 60% of package of livelihood assistance to Peace and Development Leagues (PDALs) is allocated to women beneficiaries (microenterprise).

Question: Have results in this area emphasized: (i) policy advocacy and dialogue; (ii) aid coordination and management; (iii) research and analysis; (iv) capacity development of national/local institutions; (v) formulation of legislation; strategies, policies and regulations; and/or (vi) programme implementation?

Answer: UN agencies working together for the UN joint programme on conflict transformation (ACT for Peace programme) with a commitment of US$ 15 million from the governments of Australia, New Zealand and Spain; local government units, civil society organizations, former combatants and local line agencies are involved in programme implementation.

RESPONSES TO SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR TOM COBURN
to
THE HONORABLE MARK D. WALLACE
United States Ambassador for United Nations Management and Reform

HEARING ON
UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

1. **The UNDP's own auditors, the U.N. Audit Board, the U.S. State Department, and now this subcommittee's report all found that the UNDP had committed serious wrong doings in its North Korean programs, yet the UNDP has, in Orwellian fashion, denied each charge and is mischaracterizing this subcommittee report as exonerating its management of the programs. Given that the UNDP is not willing to admit negligence and other mistakes, is reform at the UNDP possible under its current management?**

RESPONSE: I believe that reform is always possible and imperative if we are to ensure the appropriate expenditure of U.S. taxpayer dollars by UN agencies that receive U.S contributions. Since the revelation of the disturbing findings of the UNDP's own auditors, the UN BOA, and the Senate PSI, the UNDP commissioned External Independent Investigative Review Panel (EIIRP) published its report (the "Report") in June 2008. Although its general conclusions are political in nature, the Report's specific findings of fact reveal a disturbing picture of the UNDP DPRK program to a degree that we had not understood previously.

The Report confirms the previous findings of the UN Board of Auditors and U.S. Senate Permanent Sub-committee on Investigations regarding U.S. concerns in three critical areas of financial and administrative control:

1. Making cash payments in foreign/hard currency;

2. Utilizing staff seconded from the DPRK government in core functions, and

3. Failing to make adequate project site visits.

For example, the Report states that "A significant portion of payments made to National Staff employed by the UNDP-DPRK were made to them using a local

Permanent Subcommittee on Investigations
EXHIBIT #24

practice of 'cash-check.' (P. 96). The Report also states that "core functions were performed by local personnel (Finance Officer, Finance Assistant, IT Support)." (P. 35).

Furthermore with respect to site visits and program monitoring, the Report states that: "[t]he deficiencies in the monitoring and reporting of the Country Programme were highlighted by UNDP..." (P.124). "The review found evidence to confirm that there were requirements for prior clearance through the government of the DPRK for project site visits..." (P. 125). Finally the Report states that "the Panel's review of the available project budget documents revealed that for 77 transactions (74%) the available supporting documentation was insufficient to determine whether the ultimate beneficiary is consistent with the payee name indicated in the financial system." (P. 158).

The report also raised significant concerns related to the sums of money directly paid by UNDP to the DPRK government and the delivery of sensitive dual use equipment to the DPRK government. See Infra.

The State Department was concerned with a number of the Panel's findings and the on-going need for corrective action and issued a statement to this effect. ("U.S. Statement on the Report of the External Independent Investigative Review Panel: UN Development Program Activities in North Korea 1999-2007" June 13, 2008). The Statement is attached and is incorporated herein for reference. Unfortunately, UNDP publicly attempted to gloss over the factual findings of the Report and claimed that the report cleared the UNDP DPRK program of any shortcomings. ("Statement of Kemal Dervis, UNDP Administrator, on the Report of the External Independent Investigative Review Panel," June 2, 2008). The Statement is attached and is incorporated herein for reference. While I hope and believe that the State Department will continue to work with UNDP management to address the systemic weakness that led to the abuses in the UNDP DPRK program, UNDP will never become truly transparent and accountable to donors unless and until it at least acknowledges its deficiencies. UNDP's response is discouraging.

a. Are there reasonable assurances that U.S. contributions to the UNDP are safe from enriching other terrorist states or other entities under U.S. sanctions?

RESPONSE: I do not believe we can have such reasonable assurance unless and until UNDP adopts practices that make its delivery of aid more transparent and accountable to management and donors.

b. **When making contributions to a U.N. entity, other multilateral entities, or foreign governments, what agreements does the State Department make with the recipient of U.S. funds to ensure U.S. law is not thwarted by enriching state sponsors of terror or other entities under U.S. sanctions? If so, how do these agreements compare with those used by USAID and the Department of Treasury in similar circumstances? What happens if an agreement is violated by a recipient of U.S. funds? Please provide an example of an agreement used by the State Department, USAID, and Treasury.**

RESPONSE: Contributions to the UN and other International Organizations are initiated and executed by the State Department's Bureau of International Organizations (IO/B). Any agreements, conditions and penalties associated with these payments are similarly initiated and executed at the appropriate State Department Office and/or U.S Government agency in Washington D.C. As I no longer work for the State Department I am unable to provide an example of an agreement used by the Departments of State and Treasury, respectively, or USAID.

2. **According to the UNDP, money that the North Korean regime transferred around the world through U.N. bank accounts was not U.N. money. Is there any factual basis for this claim?**

RESPONSE: The UN BOA, the Senate PSI and the Report of the EIIRP all confirmed that there was an absence of appropriate managerial and administrative controls in the context of UNDP activities in the DPRK. These reports also confirmed that UNDP made extensive payments in the DPRK in cash/hard currency. For example the Report of the EIIRP states that:

> "Interviewees stated that cash-check was a check that could be presented and exchanged for cash at the FTB without having the need for a bank account," (P. 97) and that they were "exchanged for hard currency which was later distributed to applicable National Staff." (P. 96).

The Department of Treasury provided the Senate PSI with copies of banking documents from a certain Macanese Bank that were included in the Report of the PSI. These original normal course of business banking documents describe money transfers that were made from DPRK controlled accounts on behalf of "UNDP" and "UNDP-Pyongyang." Because UNDP and UNDP-Pyongyang were described as the funding parties in these normal course of business banking records, it is only reasonable to conclude that these payments reflect the illicit transfer of UNDP funds. In interviews with the Senate PSI the DPRK asserted that it intentionally and

fraudulently created these banking documents and transactions to conceal the DPRK's international money exchanges in order to avoid U.S. Treasury Department sanctions. In the interviews the DPRK further asserted that such money was not UNDP money.

Given its history of fraudulent and illegal behavior and that the DPRK admitted to fraud in this matter, I am hard pressed to accept their statement that such money did not originate from UNDP absent a more rigorous forensic audit particularly because money is fungible. Certainly, when the bank records at issue were created the Macanese bank authorities could not have expected that they would be reviewed in the light of an investigation related to the diversion of UNDP funds. Between the choice of accepting normal course of business banking records or the explanation offered by the DPRK authorities, the most reliable source clearly must be the normal course of business banking records. UNDP takes the position of the DPRK in the matter.

The various reports on this matter and most recently the EIIRP Report describe significant payments either directly to the DPRK government or in easily diverted cash payments delivered to payees controlled by the DPRK government. The Reports of the UN BOA, the PSI and the EIIRP state that the ultimate beneficiaries of payments made by UNDP-DPRK could not be determined in a large number of cases. For example, the EIIRP Report states that as a result of UNDP's deficient management controls, the Panel "cannot fully render conclusions with respect to specific aspects of the payment process and authorization" (P. 92). It further states that "payment recipients cannot be identified for check transactions" and that "intermediaries for payments cannot be identified, as there is no available documentation to trace the payment from source to the ultimate beneficiary" (P. 93).

With respect to the check or "cash-check" payments by UNDP to persons and entities, the Report - like the previous report of the UN Auditors - was "unable to determine the likelihood that such payments were received by intended beneficiaries" (P. 53), as the EIIRP, like the UN Auditors, "did not have access to paid checques." (P.53, see FN 87). As a result, the Panel could not determine "the ultimate beneficiaries as to each transaction in the UNDP-DPRK program" (P. 94) and could not "conclusively determine whether such diversion occurred." (P. 95).

Significantly, the EIIRP Report confirmed that UNDP transferred large amounts of funds directly to the DPRK regime and the ultimate size of these transfers could not be precisely determined. According to the Report (and during the time period covered by the Report) disbursements made by UNDP-DPRK include $16.9 million made by UNDP on behalf of itself and $6.9 made by UNDP-DPRK on behalf of other UN entities for a total payment from these two categories of $23.8 million. (P. 62) This

total does not include the total "disbursements made on behalf of UNDP-DPRK by UNDP country offices and other UN agencies,"(P. 118) which is as high as $24.7 million and is significantly larger than what has previously been reported by UNDP. The Panel states that this calculation "is relevant to understanding the full value of the UNDP-DPRK program." (P. 59).

The Panel "noted significant uncertainty remains in connection with the exact payments made on behalf of UNDP-DPRK by various UNDP country offices and other UN agencies during the Winfoas accounting period..." The Panel is therefore "unable to confirm the total size of the UNDP-DPRK program from 1999-2007" (PP 61, 118).

The Panel concluded that "38% of all disbursements made by UNDP-DPRK" were paid directly to DPRK "government agencies" which constituted 11 of the top 20 of all payees and totaled $9.13 million (P. 100-101). This does not include "disbursements made on behalf of UNDP-DPRK by UNDP country offices and other UN agencies" (P. 118). Assuming the same percentage payment rate to the DPRK government, then additional millions of dollars were paid directly to the DPRK government as part of the UNDP DPRK program (e.g 38% of $24.7 million or $9.4 million).

The Panel reviewed available project budgets and concluded that "for 77 transactions (74%), the available supporting documentation was insufficient to determine whether the ultimate beneficiary is consistent with the payee name indicated in the financial system." (P.158). The Panel also found that for 78% of the sample transactions reviewed, "the signature of the recipient cannot be verified as the intended recipient" and that for "22% of the sampled transactions reviewed there is no evidence of the payee's receipt of payment." (P. 93).

Based upon the foregoing: 1. Sizeable UN sums were paid directly to the DPRK government, and; 2. Sizeable UN sums were likely diverted to the DPRK government. Money is fungible. Such large scale UNDP payment directly to and/or diverted to the DPRK regime makes it difficult at best to accept the groundless assertion by UNDP and the DPRK that no UN money was included in illicit transfers emanating from DPRK controlled accounts from the Macanese Bank.

a. **Does North Korea maintain separate records and accounts to distinguish which accounts contain illicit income from ballistic missile sales, nuclear proliferation, payments for equipping and training terrorists, and the proceeds from slave labor?**

RESPONSE: I am without sufficient information to comment.

b. **If not, is it possible that the regime used its unfettered access to U.N. bank accounts to launder money tainted by such illicit activities?**

RESPONSE: The facts presented in the record to date suggest strongly that UN funds were diverted by the DPRK for illicit activities.

3. **In your investigations of the UNDP, is the problem with the UNDP North Korea program extraordinary or just one of many examples where UNDP negligence created vulnerability to manipulation by other terrorist states and rogue regimes?**

RESPONSE: During my time with the U.S. Mission, there were reports that UNDP operated in a manner inconsistent with its own rules and regulations and the rules and regulations of the UN in the context of UNDP operations in Burma, Venezuela and Cambodia. There were also reports of irregularities in the procurement and treasury functions, respectively, at UNDP Headquarters. Notably, an audit by UNDP's own Office of Internal Audit and Investigation (OAI) gave an overall audit rating of "partially satisfactory" to UNDP's nearly $ 2.5 billion procurement function. The audit states that, "[t]he rapid growth of procurement in UNDP was not accompanied by a commensurate strengthening of the procurement operations, management, and oversight capacities across the organization and more particularly, with respect to corporate functions, which has further increased the high risk exposure of procurement in UNDP." (P. 4, Para 7).

a. **At the hearing, UNDP made the "everyone's doing it" argument, claiming that other entities funded by the State Department and USAID operate with the same mismanagement practices. Is this accurate? If not, how?**

RESPONSE: UNDP serves as the Resident Representative (RR) and the Resident Coordinator (RC) in UN serviced countries. UNDP is also the Head of the UN Country Team (UNCT). As RR and RC, UNDP serves as the designated representative of the Secretary-General in a given country. As Head of the UNCT, UNDP is also responsible for leading and coordinating the activities of other UN agencies operating in countries. Given UNDP's peculiar in-country administrative

role it bears unique responsibility for the practices of other in-country subordinate UN agencies and programs. The Report of the EIIRP confirms that UNDP failed in fulfilling this leadership, coordination and oversight role. The Report states that "[t]he failure of the UNDP Resident Representative to monitor the conditions imposed by Governments is especially troubling" (P.219).

b. What other U.N. entities have similar mismanagement and funding problems as UNDP?

RESPONSE: The Report of the BOA confirmed that other entities operating in the DPRK made payments in cash and employed staff seconded directly from the DPRK government. The Report of the BOA also states that site visits by such entities were restricted. I encourage all such UN entities to permit a truly independent and outside full forensic audit of their operations in DPRK.

4. Given how secretive the UNDP is with program and audit information, is there any way donor nations can measure the outcomes of UNDP programs to determine whether an investment with the UNDP results in acceptable outcomes or enriches state sponsors of terror?

RESPONSE: UNDP declines to provide Member States with internal audit reports and the important fiduciary and programmatic information contained therein. The PSI determined that UNDP must alter its policy with respect to providing Member States with access to internal audit reports. Notably the EIIRP arrived at the same conclusion. Without adequate access to reliable outside audits of UNDP programs member states cannot effectively track the legitimate use of and effectiveness of their contributions to UNDP.

a. What metrics are used by the State Department to evaluate the outcomes and effectiveness of the U.S. contributions to U.N. entities such as UNDP?

RESPONSE: In 2007 the US Mission to the UN launched the United Nations Transparency and Accountability Initiative ("UNTAI") to promote reforms adopted in the context of the UN Secretariat that had yet to be applied within the UN "Funds and Programs." Specifically, this initiative addresses eight areas that require action by the Funds and Programs which the U.S. and other member states can exercise greater oversight. In May 2007, February 2008, and again in July 2008, the State Department inquired with UNDP and other Funds and Programs as to what action it was taking in these eight areas, including specifically the level of public access to financial and budgetary information. The State Department has since developed

criteria for public access to information that will serve as a metric for measuring UNDP's progress and compliance with UNTAI.

The UNTAI criteria provide for the disclosure to Member States of internal audit and oversight reports upon request, in their original and unedited form. In October 2007, the UN's Chief Executive Board (CEB) endorsed the disclosure of internal audit reports but noted that such policies should not be applied retrospectively. As an accounting tool previous audits are vital for purposes of comparison to current and future audits. The CEB's decision in this regard is regrettable.

Similarly, the State Department has developed criteria to measure UNDP's and other Funds and Programs progress and compliance with the requirement that they establish and comply with an effective whistleblower protection program. UNDP and other Funds and Programs must implement effective whistleblower protections against retaliation for reporting misconduct and/or cooperating with the internal oversight function. These policies must be well known to staff and conform to best practices. Staff must have an effective mechanism for recourse if retaliation is taken or threatened. In this regard, UNDP and the other Funds and Programs must have an independent ethics officer who is responsible for enforcing the Organization's whistleblower protections. I understand that the State Department is seeking periodic updates from UNDP and the other Funds and Programs in this regard.

b. How has State graded the UNDP for the past five years?

RESPONSE: The State Department is in the process of evaluating whether UNDP has met the criteria contained in the U.S. UNTAI Initiative. In addition, I understand that the U.S. Congress elected to withhold 20 percent of its contribution to the UNDP pending confirmation that UNDP has met certain criteria related to transparency and accountability.

5. Is there anything the State Department can do in order to help protect the rights of the whistleblower that the UNDP fired and blacklisted as retaliation for exposing this scandal?

RESPONSE: In his report "Review of the External Independent Review Panel's Report: United Nations Development Programme Activities in the Democratic People's Republic of Korea, 1999-2007," the Head of the UN Ethics Office, Mr. Robert Benson, determined that the "failure to provide the individual with an opportunity to provide a reasonable explanation in relation to the relevant facts on which the Panel based its adverse findings before the report was made public

constitutes a due process failure." Because of this due process failure, Mr. Benson recommended that UNDP pay the individual 14 months net base compensation. Notably, the EIIRP found that the whistleblower "justifiably raised issues about UNDP's practices in the DPRK. In particular Shkurtaj correctly identified concerns about UNDP's payments in hard currency in the DPRK." (P.273)

It is my understanding that UNDP has yet to comply with Mr. Benson's ruling. UNDP's failure to do so is a regrettable blow to a vitally important UN reform - the UN Ethics Office.

6. **If the UNDP were a U.S.-based entity and not exempt from the rule of law, what U.S. sanctions and laws were violated when the UNDP misused federal money to fund non-humanitarian and non-development activities in North Korea, including giving funds to the financier of North Korea weapons programs?**

   RESPONSE: I believe it inappropriate for me to comment on this hypothetical question.

   a. **If UNDP wasn't exempt from U.S. law, would you recommend a referral to the U.S. Justice Department for further law enforcement action?**

   RESPONSE: The EIIRP Report revealed that there were multiple instances where UNDP procured and delivered to the DPRK sensitive "dual-use" equipment that would have been subject to U.S. export control laws.

   The EIIRP Report clearly states that "as written, U.S. export controls apply to UNDP's activities in the DPRK." (P. 216). Of the 151 pieces of equipment exported by UNDP to DPRK that the EIIRP reviewed, 95 items were "classified as being on the Commerce Control List.... [and] would have required a license from the U.S. Commerce Department for export or re-export to the DPRK." (P. 210). The EIIRP found that many of such items were "controlled by the U.S. for national security and anti-terrorism reasons.... and were of heightened concern." (pp. 210, 213). UNDP management, however, did not obtain the required licenses. Notably, in June 2007 the U.S. requested that UNDP provide it with the number and nature of transactions wherein UNDP acquired potential dual-use equipment on behalf of the DPRK (Letter from USUN to UNDP, June 7, 2007). To my knowledge UNDP never provided this information.

   Even the UN Secretary General's office was of the opinion that UNDP must comply with US export control laws. The Assistant Secretary General for Legal Affairs Larry

Johnson opined to UNDP that UNDP required a "retransfer authorization" from the U.S. to transfer the equipment to the DPRK or other third parties and that UNDP did not obtain any such "retransfer authorization" prior to transferring these items to the DPRK government. (P. 220).

Based on the foregoing, at a minimum, it is apparent that UNDP did not execute adequate oversight over its procurement and import functions and that UNDP acted in violation of U.S. law in this regard. I believe it is inappropriate for me to comment more generally on this question.

7. **According to reports, Eveline Herfkens, UNDP's director of poverty eradication campaigns, received at least $280,000 from the Dutch government as a housing subsidy even though her U.N. salary already provided compensation for living expenses. This housing subsidy broke U.N. conflict of interest rules. What is UNDP's policy on additional payments, compensation, allowances, or benefits paid to UNDP staff by U.N. member states or any other entity? Does the U.N. Secretariat have a similar policy? How are they different?**

   RESPONSE: The policies for UNDP and UN Secretariat officials are the same. The policy states that the receipt of additional compensation by UN officials from an entity outside of the UN is a potential violation of UN Staff Regulations and Rules, depending on the circumstances. There is a prohibition in the Staff Regulations on UN staff members receiving any compensation from a government.

Do any of the following UNDP officials receive additional pay and/or benefits outside of the U.N. including from member states like Turkey, the Netherlands, Canada, India, or Kenya?

i. **Kemal Dervis, UNDP Administrator**
ii. **Ad Melkert, UNDP Associate Administrator**
iii. **David Morrison, UNDP Communication Director**
iv. **David Morrison, UNDP Communication Director**
v. **Darshak Shah, UNDP Controller**
vi. **David Lockwood, UNDP Regional Director**
vii. **Fred Tipson, UNDP Director**

RESPONSE: I am unaware if any of the foregoing officials receive additional compensation.

✧ ✧ ✧

UNITED STATES MISSION TO THE UNITED NATIONS

USUN PRESS RELEASE # 143 (08)
June 13, 2008

FOR IMMEDIATE RELEASE

Office of Press and Public Diplomacy
United States Mission to the United Nations
140 East 45th Street
New York, N.Y. 10017

U.S. Statement on the Report of the External Independent Investigative Review Panel: UN Development Program Activities in North Korea 1999-2007, June 13, 2008

The United States welcomes the Panel's Report and remains concerned by a number of its findings and the on-going need for corrective action. The United States has been working with UNDP management for over a year now to address systemic weaknesses through our UN Transparency and Accountability Initiative (UNTAI). In the coming months, we will follow up with UNDP management and the Executive Board to address the Panel's findings and recommendations. We expect our collective effort to result in an appropriate transparency and accountability system for the organization that can help turn the page on this episode.

During the 1999-2007 period covered by the Panel's review, the United States provided over $1.5 billion to support UNDP and its activities worldwide. As one of the largest donors to UNDP and a member of its Executive Board, the United States has a responsibility to ensure the organization meets the standards of accountability and trust expected of public institutions. In addition, as the lead UN agency for system-wide coherence, UNDP should set the standard in management, ethics, transparency and accountability. We must ensure that funding provided to UNDP is used in the most effective way possible and for its intended purpose --to help the world's poor. In this spirit we offer the following observations.

The Report, which is voluminous, confirms many previous concerns raised by Member States and the findings of both the UN Board of Auditors (BOA) and the U.S. Senate Permanent Subcommittee on Investigations (PSI) regarding UNDP's management deficiencies, lack of transparency and oversight of activities in North Korea.

Specifically, we note that the Report confirms that payments were made in "cash-checks," and that as a result of this practice, this Report, like the previous BOA Report, was unable to determine whether such payments made by UNDP to persons and entities were received by the intended beneficiaries. In reviewing available UNDP project budget documents, the Panel was unable to determine in 74% of the cases "whether the ultimate beneficiary is consistent with the payee name indicated in the financial system." Moreover, the Panel was unable to conclusively determine if diversion occurred.

The Report also confirms that "core functions," such as Finance Officer, were performed by local North Korean personnel seconded from the DPRK government. The Report also confirms that UNDP project visits were circumscribed by the DPRK government through required advance "clearance or authorization." Further, the Report confirmed that there were broader management deficiencies relating to project monitoring and implementation across the entire UNDP DPRK Country Program.

As the U.S. Senate PSI Report indicated, these problems might have been addressed earlier had internal audits done by UNDP been made available to Members of the UNDP Executive Board. We therefore welcome the Panel's recommendation that UNDP make its internal audits available to Member States. We are working with UNDP, the Executive Board, and the other UN Funds and Programs to ensure this

becomes standard practice across the UN system.

We note that the figures provided in the Report are inexact regarding the transfer of funds to the DPRK or DPRK-controlled entities by UNDP country-offices and by other UN agencies acting on behalf of UNDP's North Korea office. The figures cover a wide range of possible amounts. Nonetheless, the report does appear to confirm much larger figures than reported earlier by UNDP.

The Panel noted that there is no evidence that UNDP officials knew that the DPRK government misused accounts that had been set up to receive UNDP funds to transfer North Korean monies abroad to avoid possible sanctions or to entities associated with secret weapons programs. But the Report observes that UNDP did not sufficiently align its management controls to the "challenging environment" in which it found itself operating.' Accordingly, the Report recommends "that an evaluation of UNDP-DPRK controls be performed" in order to strengthen them.

The Panel Report revealed an absence of understanding and required sensitivity to U.S. export control laws with respect to "dual use" items. As a result, a large number of sensitive items requiring export or re-export licensing by the U.S. for "national security and anti-terrorism reasons" were purchased and exported by UNDP to North Korea without licenses.

The Panel noted that UNDP staff had long been aware of the use of counterfeit notes in North Korea. Prior to 1999, UNDP staff in Pyongyang recognized that "counterfeiting was a significant issue at that time," and took measures to limit UNDP's vulnerability. However, "from the Fall of 1999 to 2007, there was no apparent discussion among the Country Office staff about taking proactive measures." UNDP Headquarters also ignored warning signs regarding counterfeit U.S. currency, which the U.S. Government brought to the attention of UNDP in the summer of 2006. The Panel noted that in October 2006 the head of UNDP Pyongyang office learned about the counterfeit U.S. currency stored in his office safe for over ten years in violation of UNDP rules, but waited until February 2007 to inform UNDP headquarters. The Panel also noted inconsistent accounts of this issue from the UNDP Comptroller.

Finally, although failing to find evidence of retaliation against the whistleblower, the Report found that he was justified in raising issues about UNDP's practices in the DPRK and that "he reported conduct and facts about UNDP operations in the DPRK that required resolution and may well have been in violation of UNDP policies as well as applicable agreements with the DPRK."

Contents

News

- Topics
  - MDGs
  - Democratic Governance
  - Poverty Reduction
  - Crisis Prevention & Recovery
  - Environment & Energy
  - HIV/AIDS
- Regions
  - Africa
  - Arab States
  - Asia & the Pacific
  - Europe & the CIS
  - Latin America & the Caribbean
- Dates
  - 2008
  - 2007
  - 2006
  - 2005

Speeches

- **UNDP Administrator Kemal Dervis**
- UNDP Associate Administrator Ad Melkert
- Other Speeches and Statements
- Topics
  - MDGs
  - Democratic Governance
  - Poverty Reduction
  - Crisis Prevention & Recovery
  - Environment & Energy
  - HIV/AIDS
- Region
  - Africa
  - Arab States
  - Asia & the Pacific
  - Europe & the CIS
  - Latin America & the Caribbean
- Date
  - 2008
  - 2007
  - 2006
  - 2005

Search

GO

SPEECHES - UNDP ADMINISTRATOR KEMAL DERVIS

02 June 2008

Kemal Dervis statement on Nemeth Report

Before I start, let me just express my deepest condolences to the families of one of our UNDP colleague who was killed earlier today when a car detonated outside of the Danish Embassy in Islamabad, which is next to UNDP's project offices. Six other UNDP staff members were also injured, some seriously.

Our thoughts and prayers also go out to all the other victims of today's attack in Islamabad, especially the family of the colleague we lost.

We are still trying to gather information as to the exact situation on the ground and are supporting our teams there as best we can.

Now let me turn to today's topic which is the Nemeth Report. The report on UNDP activities in the Democratic People's Republic of Korea covering the period from 1999 – 2007.

It's a long report, for those of you who have seen it, a very comprehensive report, done by a very distinguished independent panel. I don't expect anybody to have fully absorbed the full report yet. We read it in the evening yesterday and are still studying it very carefully.

I'm going to read, which is not something I usually do, but I just want to be very careful because it's the Panel's report, it's not our report. I think that is very important to stress. So I don't really want to paraphrase them or interpret them in any way. Once we've studied the whole thing maybe we can do that with a lot of care. But I want to stress strongly that this is the Independent Panel's report and their findings, the way they did their work and the way they wrote it. I don't want to mix up our own views and our own work on follow up with that of the Panel as such. I'm going to be very careful on this point.

I want to welcome the very thorough and exhaustive independent external review of UNDP's activities in DPRK. I am pleased that this very important review is now concluded and that we finally have some closure on the allegations made against UNDP.

I would like to thank the chairman of the independent external review Panel, Miklos Németh, the former Prime Minister of Hungary and a current member to the Advisory Council of Transparency International, as well Mr. Chander Mohan Vasudev, former Permanent Secretary of Public Expenditure in the Indian Ministry of Finance, and Ms. Mary Ann Wyrsch, former UN Deputy High Commissioner for Refugees and former acting commissioner of the U.S. Immigration and Naturalization Service. Ms. Wyrsch is also currently the Chair of UNDP's external Audit Advisory Committee. The Panel members and their staff deserve our heartfelt thanks for their work and dedication to ensure that no stone was left unturned. That is a phrase Mr. Nemeth often used.

I also want to thank you, the members of the media for being here today.

As you know, the distinguished Panel members were chosen in consultation between myself, the Secretary-General and the members of UNDP's Executive Board. Mr. Nemeth had the full authority to lead the team and to determine how to conduct and conclude its activities.

This report is their report, and I will not interpret or paraphrase it today. It is the Panel's own writing and everyone seriously interested in the issue needs to read the entire report. I would like to stress and this is also the wish of the Panel that those who really want to absorb the whole findings, it is really important to read the whole thing. It contains findings related to five issues. The report also contains valuable recommendations for UNDP's operational work in the future.

The findings are summarized in chapters 2 through 6 of the report.

Chapter two, deals with issues of payment modalities and I quote:

• The analysis provided confidence that the amounts detailed in UNDP-DPRK financial systems data are reliable and the scope of the cash inflows is reasonably quantified. It was evident to the Panel that data in the UNDP-DPRK financial systems was consistent with transaction amounts stated in bank statements, and hence the Panel could perform detailed analyses based on this data.
• Apart from performing a straight review of payments and banking procedures associated with the UNDP-DPRK program, the Panel has considered a range of questions raised about the manner in which UNDP-DPRK handled its financial matters. For example, some have questioned the extent to which UNDP paid national staff in cash. The Panel notes that UNDP discouraged the use of cash, and its financial systems in fact are not designed to allow for cash payments. Indeed the UNDP did not make direct cash payments to the national staff, but instead issued cash-checks, which could be exchanged at the Foreign Trade Bank for cash. This practice was designed in part because most DPRK nationals do not possess bank accounts. Payments were made to national staff for items such as daily subsistence allowance, bonuses, overtime, travel, and meal allowances.

Chapter three deals with project implementation and one of the key conclusions is and I quote:

• The volume, quality, and scope of the relevant documentation retrieved from UNDP headquarters and the UNDP-DPRK country office files demonstrated that the majority of the programme, and more importantly the larger, more complex, or higher-risk projects, were managed, monitored and evaluated substantially in accordance with UNDP requirements.

Another key find in that chapter is that, and I quote:

• On the basis of its review, the Panel concludes that allegations suggesting that field visits did not occur are unfounded.
Chapter four focuses on the issue of dual use equipment and, here again, I quote verbatim from the report:
• While familiarity with and sensitivity to export control systems is clearly necessary in connection with UNDP's operations and its relationships with contractors, the applicable international laws are exceedingly complex. In many instances, questions of applicability remain unresolved. For example, there are questions about whether and to what extent a country's export control system can have cross-border application. Other questions exist as to which parties in the supply chain are subject to a given export control system and whether persons who facilitate exports face compliance obligations.

• These tensions among laws and the application of privileges and immunities are not issues unique to UNDP, but instead have broad applicability to the UN system as a whole. Resolution of the applicability of international dual use principles will require extensive discussion and agreement on a UN-wide basis with input from and agreement by Member States.

This I was quoting, I'm now adding my own words. As you will see in the chapter, not all countries agree on to the way individual country export controls should be applied and implemented by international organizations. There is nothing in that chapter that finds any kind of wrongdoing on the part of UNDP, but it draws our attention to the need for the international community and Member States to come to a more transparent agreement on how export control systems should be implemented in practice.

Chapter five reports on the issues of the counterfeit US dollars. Here the report says and, again, I quote:

• Regarding action and inaction by UNDP officials, the Panel finds that representatives of the Country Office and UNDP Headquarters knew of concerns about counterfeit currency in the DPRK. At a minimum, warning signs existed that required a more timely and effective response.
End of quote, as you know these counterfeit notes ended up in the safe in 1996. I quote again:
• There is no evidence that anyone acted in bad faith or in a fraudulent or deceptive manner. Instead, the Panel finds that there was a clear lack of attentiveness at the Country Office and Headquarters levels and that communications between the Country Office and UNDP Headquarters were inadequate.
End of quote, so there is a period where the communications s between the Country Office and headquarters were not really careful enough in the late nineties and the early part of the century.
• The Panel notes that prior to 2002, UNDP was using US dollars as the foreign currency for its DPRK operations. The evidence indicates that circulation of counterfeit US dollars was widely prevalent in the DPRK. After 2002, UNDP-DPRK's use of US dollars ceased, after which UNDP started using Euros as the foreign currency for disbursements. The possibility of UNDP disbursement procedures being misused for circulation of counterfeit dollars was thus minimized.
And finally, chapter 6 deals with the so-called 'whistle blower" issue. There is a lot of material in that chapter which describes how Mr. Shkurtaj and, I quote, "made assertions during the interview process that are untenable." The panel also says:
• Considering the totality of the circumstances, including the undisputed evidence, the accounts of numerous witnesses, and extensive documentary evidence, the Panel concludes that UNDP did not retaliate against Shkurtaj for his role in raising concerns about UNDP's operations in the DPRK.

These were the headings in the Terms of Reference for the Panel. They organized it into these chapters and I just read you some sentences from their findings. There are summaries in the report and of course there is the whole report, and I really encourage you if you are interested in this to read the full report. It makes kind of interesting reading.

We received this comprehensive report yesterday afternoon and we will study it very carefully over the next few days. I will also organize management follow-up meetings on all aspects of the report because it contains very useful proposals on how to improve the effectiveness of UNDP's work, particularly in the most challenging environments. Of particular importance is the development of the new Accountability System on which Ad Melkert, the Associate Administrator, has taken the lead. The last part of the Terms of Reference for the Panel was to make recommendations for our programmatic development activities, particularly in the most difficult circumstances, and the very experienced panel came up with a whole series of very useful, practical recommendations that will help us.

The Panel will present its report to the UNDP's Executive Board at the end of the month in Geneva, either on the 24th of June. As you know, sometimes our Board meets in Geneva, and there is a session reserved for the findings of the Panel. As you know the report was commissioned jointly by myself, as the UNDP Administrator, but also by the President of the Executive Board of UNDP. I very much look forward to discussing the report with the members of the Board.

Before I take your questions, let me just say on a personal note as the head of UNDP that this has been a long exhaustive and difficult process. For more than a year we have been the target of various serious allegations. Sometimes these allegations have taken fantastic and irresponsible forms. Be that as it may, we are, and will, always remain open to constructive criticism. It is clear that our complex organization can and should improve further. We have been involved in a constant process of reform, including building greater management controls throughout the organization. It is also clear however, that the men and women of UNDP on the whole are doing an extraordinary job often in very difficult circumstances. And, as we saw again today, sometimes as the risk of their own lives.

I would also like to stress that every UNDP employee has the right to be treated with respect and can at all times safely use the channels that are available to raise issues of concern. I want to stress that, every employee, whatever his or her particular employment contract, has the right to that respect and that protection. At the same time, I intend to also protect the organization and the resources entrusted to us for development purposes from frivolous actions with obvious ill intent. The protection is for people in good faith. They are protected and can use existing channels but frivolous activities which cost a lot of resources and attention, which detract us from our work and which are pursued with individual interest and ill-intent, we will not tolerate.

In conclusion, let me say that I very much hope that this exercise has been useful to all parties involved and that it can guide our actions in the future as we support human development around the world.
Thank you very much.

United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
Norm Coleman, Ranking Minority Member

UNITED NATIONS DEVELOPMENT PROGRAM:

A CASE STUDY OF NORTH KOREA

STAFF REPORT

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

UNITED STATES SENATE

RELEASED IN CONJUNCTION WITH THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS JANUARY 24, 2008 HEARING

SENATOR CARL LEVIN
Chairman
SENATOR NORM COLEMAN
Ranking Minority Member
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

ELISE J. BEAN
Staff Director and Chief Counsel

ZACHARY I. SCHRAM
Counsel

MARK L. GREENBLATT
Staff Director and Chief Counsel to the Minority

MICHAEL P. FLOWERS
Counsel to the Minority

MELISSA A. STALDER
Associate Counsel to the Minority

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
STAFF REPORT
UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

TABLE OF CONTENTS

I. INTRODUCTION 1

II. EXECUTIVE SUMMARY 2
- A. Subcommittee Investigation 2
- B. Report Findings 2
  1. UNDP operated in North Korea with inappropriate staffing, questionable use of foreign currency instead of local currency, and insufficient administrative and fiscal controls. 2
  2. By preventing access to its audits and not submitting to the jurisdiction of the U.N. Ethics Office, UNDP impeded reasonable oversight and undermined its whistleblower protections. 3
  3. In 2002, the DPRK government used its relationship with the United Nations to execute deceptive financial transactions by moving $2.72 million of its own funds from Pyongyang to DPRK diplomatic missions abroad through a bank account intended to be used solely for UNDP activities and by referencing UNDP in the wire transfer documents. 4
  4. UNDP transferred U.N. funds to a company that, according to a letter from the U.S. State Department to UNDP, has ties to an entity involved in DPRK weapons activity. 5

III. REPORT RECOMMENDATIONS 6
  1. UNDP should provide U.N. member states with unfettered access to financial and management audit reports about UNDP activities, including providing timely copies of such reports and allowing U.N. member states to make audit information public. 6
  2. UNDP should ensure that whistleblowers do not face retaliation for reporting irregular or improper conduct. . . 6
  3. UNDP should take steps to ensure that its name and resources are not used as cover for non-U.N. activities. . . 7
  4. Prior to making payments to a vendor, UNDP should take steps to ensure that the vendor is not associated with illicit activity. 7

IV. BACKGROUND 8
A. The United Nations Development Program 8
B. UNDP Development Strategies and Challenges 9
C. UNDP Field Offices 11
D. UNDP Rules, Agreements, and Best Practices 14
E. Withdrawal From North Korea 15

V. MANAGEMENT AND OPERATIONAL DEFICIENCIES OF THE UNDP PROGRAM IN NORTH KOREA 16
A. UNDP Staffing Deficiencies in North Korea 16
1. Use of DPRK Officials 16
2. Use of Foreign Currency in Lieu of Local Currency 17
3. DPRK Monitoring of UNDP Communications and Personnel 19
B. UNDP Fiscal Controls 20
1. UNDP Banking Transactions 20
2. Cash Disbursements to North Korean Nationals 23
C. UNDP Development Projects in North Korea 24
D. Program Oversight and Accountability 27
1. Project Monitoring 27
2. Adequacy of Internal Audits 28
3. Access to Internal Audits 28
4. UN Ethics Policy and Whistleblower Protections 29
E. Analysis 32

VI. THE DPRK USED ITS RELATIONSHIP WITH THE UNITED NATIONS TO EXECUTE DECEPTIVE FINANCIAL TRANSACTIONS 33
A. Summary of Nine Transfers Totaling $2.72 Million 33
B. IFTJ and Banco Delta Asia 33
1. IFTJ and Its Relationship With North Korea 33
2. Banco Delta Asia 37
C. Wire Transfer Documentation 39
D. Actions Taken to Disguise Transfers 43
1. North Korea Confirmed Transfers Had No Connection to U.N. Activity 43
2. Reference to UNDP in Wire Transfers 43
3. Involvement of IFTJ 44
4. Reference to Real Estate 44
E. Analysis 45

VII. TRANSFERS OF U.N. FUNDS TO A COMPANY THAT, ACCORDING TO THE U.S. STATE DEPARTMENT, HAS TIES TO AN ENTITY INVOLVED IN DPRK WEAPONS ACTIVITY 46
A. UNDP and Zang Lok 46
B. UNDP's Vetting Procedures 50
C. Information Sharing on Vendor Lists 50

VIII. CONCLUSION 52

# # #

UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

January 24, 2008

I. INTRODUCTION

In March 2007, the United Nations Development Program (UNDP) suspended its operations in the Democratic People's Republic of Korea (DPRK), commonly known as North Korea. This unprecedented step stemmed from the DPRK's refusal to agree to UNDP measures to increase the transparency and accountability of its programs there. This Report presents evidence obtained by the U.S. Senate Permanent Subcommittee on Investigations (the Subcommittee) regarding management and operational deficiencies in the UNDP program in North Korea. These deficiencies rendered UNDP vulnerable to manipulation by the North Korean government. Specifically, the Subcommittee investigation identified deficiencies involving in-appropriate staffing, questionable use of foreign currency instead of local currency, and insufficient administrative and fiscal controls. The Subcommittee investigation also found that, by preventing access to its audits and not submitting to the jurisdiction of the U.N. Ethics Office, UNDP impeded reasonable oversight and undermined its whistleblower protections.

The Subcommittee's investigation also established that, in 2002, the DPRK government used its relationship with the United Nations to execute deceptive financial transactions by moving $2.72 million of its own funds from Pyongyang to DPRK diplomatic missions abroad through a bank account intended to be used solely for UNDP activities and by referencing UNDP in the wire transfer documents.[1] Finally, the Subcommittee obtained evidence that UNDP transferred approximately $50,000 of U.N. funds to an entity called Zang Lok Trading Co. that a U.S. State Department official later identified as having "ties to a North Korean entity that has been designated [by the U.S. Government] as the main North Korean financial agent for sales of conventional arms, ballistic missiles and goods related to the assembly and manufacture of such weapons." UNDP officials told the Subcommittee that they had no knowledge of such a connection at the time the payments were made.

[1] The term "Dollars" and the symbol "$" refer to United States currency.

II. EXECUTIVE SUMMARY

A. SUBCOMMITTEE INVESTIGATION

Since 2004, the Subcommittee has conducted a bipartisan investigation into evidence of waste, fraud, and abuse in United Nations programs and operations. The first phase of this investigation examined the United Nations Oil-for-Food Program and resulted in four Subcommittee hearings and five staff reports disclosing evidence of poor management, misconduct, and financial corruption associated with that program.

In 2007, the Subcommittee commenced an examination into allegations of mismanagement and misconduct in the operations of the United Nations Development Program in the DPRK. Over the course of its investigation, the Subcommittee interviewed dozens of individuals from agencies in the U.S. Government, including the U.S. Mission to the United Nations; UNDP and other U.N. organizations; the U.S. Government Accountability Office; U.S. financial institutions; and the DPRK's Permanent Mission to the United Nations. Moreover, the Subcommittee held confidential meetings with sources from within UNDP and the United Nations. The Subcommittee collected voluminous documentation and electronic data from these sources.

The Subcommittee recognizes the privileges and immunities of the United Nations and appreciates the extent of its voluntary cooperation with our inquiry, including significant and detailed formal and informal briefings provided by U.N. and UNDP personnel. The Subcommittee also appreciates that DPRK officials agreed to meet with Subcommittee staff and responded candidly to Subcommittee inquiries about these matters.

B. REPORT FINDINGS

Based upon its investigation into the United Nations Development Program operations in North Korea, the Subcommittee staff makes the following findings.

1. UNDP operated in North Korea with inappropriate staffing, questionable use of foreign currency instead of local currency, and insufficient administrative and fiscal controls.

Evidence obtained by the Subcommittee, including UNDP audits, witness interviews, and other relevant records, establishes management and operational deficiencies in the UNDP program in North Korea, including practices inconsistent with U.N. and UNDP standard operating procedures and best practices. Specifically, the Subcommittee found that: (1) UNDP's DPRK office was staffed in large part with North

Korean nationals who were selected by the DPRK, contrary to UNDP policy; (2) UNDP paid the salaries of local staff directly to the North Korean government without any way of verifying that the salaries were properly disbursed and despite UNDP's suspicion that the DPRK was, in the words of one UNDP official, "skimming" money from the payments; (3) UNDP paid salaries and other expenses in convertible currencies, such as U.S. Dollars or Euros, rather than in the local currency, contrary to U.N. best practices; (4) UNDP was required to conduct its financial transactions using a DPRK state bank that accepted paperwork only from DPRK personnel, sometimes routed UNDP funds through an unrelated bank account, and, until recently, refused to provide UNDP with copies of cancelled checks; and (5) UNDP was allowed to conduct on-site project visits only with prior notice and in the company of North Korean officials, contrary to UNDP best practices. The Subcommittee also learned that the UNDP office in Pyongyang operated without secure communications, and the regime routinely monitored U.N. activity, going so far as to enter and search private residences of U.N. personnel.

In addition, a Subcommittee review of a UNDP internal audit revealed that nearly half of UNDP projects in the DPRK were conducted under a National Execution Strategy that ostensibly required direct payments to the host government for the implementation of UNDP projects. The Subcommittee learned, however, that by agreement with North Korea, UNDP maintained control of most of the projects' financing and management. UNDP officials explained to the Subcommittee that, by directly controlling funds that were ostensibly slated to be managed nationally, UNDP accomplished two objectives: it respected sensitivities about national sovereignty and formal control over projects within a country's borders, and it executed the projects using UNDP management and controls. In the case of the UNDP program in North Korea, however, this strategy also led to confusion over the amount of direct payments actually made to North Korea. In sum, UNDP operations in North Korea were carried out under significant constraints that undermined its standard administrative, fiscal, and program controls.

2. By preventing access to its audits and not submitting to the jurisdiction of the U.N. Ethics Office, UNDP impeded reasonable oversight and undermined its whistleblower protections.

UNDP commissioned four audits of its North Korean operations, in 1999, 2001, 2004, and 2007. Problems were identified in all four audits. The first three audits were nonpublic and, in accordance with UNDP policy, unavailable for review even by nations serving on the UNDP Executive Board. After repeated requests, UNDP made an exception to this policy and, in 2007, showed the audit reports to the U.S. Mission to the United Nations, whose personnel were allowed to

read but not copy them. The Subcommittee obtained copies from other sources and found the audits to be of great assistance in examining UNDP operations in North Korea. U.N. member states that are denied access to U.N. audits are denied relevant and timely information about program operations and have few alternative means of ensuring that U.N. contributions are being spent properly. Had UNDP audits of its North Korean operations been contemporaneously available for review by members of the UNDP Executive Board, the Board members could have evaluated the practices and determined what actions to take, if any, to address concerns. UNDP's Administrator has recently submitted a proposal to the Executive Board to give Board members routine access to future UNDP audits by allowing the audit reports to be reviewed but not copied.

Beginning in 2005, Artjon Shkurtaj, then Operations Manager of the UNDP office in Pyongyang, raised concerns about management and operational deficiencies in UNDP operations. After raising these concerns, Mr. Shkurtaj's UNDP employment contract was not renewed. He then filed a complaint with the U.N. Ethics Office claiming that UNDP had retaliated against him. The U.N. Ethics Office, which was created by U.N. Secretary General Kofi Annan in January 2006, was intended to apply U.N.-wide ethics rules. In August 2007, however, the Ethics Office determined that, although Mr. Shkurtaj had established "a prima facie case of retaliation," it lacked jurisdiction to decide his claim and could protect only whistleblowers within the U.N. Secretariat. UNDP declined a request by the Ethics Office that it voluntarily submit the Shkurtaj matter for an Ethics Office review, later forming an ad hoc review team and referring the matter to that team. UNDP actions and the Ethics Office decision have undermined confidence among U.N. employees that U.N. whistleblowers who speak out about U.N. mismanagement will be protected from retribution. In November 2007, the U.N. Secretary-General issued a bulletin requiring each U.N. agency to establish its own ethics office or submit to the jurisdiction of the Ethics Office within the Secretariat.

3. In 2002, the DPRK government used its relationship with the United Nations to execute deceptive financial transactions by moving $2.72 million of its own funds from Pyongyang to DPRK diplomatic missions abroad through a bank account intended to be used solely for UNDP activities and by referencing UNDP in the wire transfer documents.

The Subcommittee gathered evidence that, over a six-month period in 2002, the North Korean government used the cover of the UNDP's presence in the DPRK to move $2.72 million of its own funds out of North Korea. The evidence, which includes wire transfer and other documentation from U.S. and foreign financial institutions, indicates that

the North Korean government transferred the money from Pyongyang to its diplomatic missions abroad via a circuitous route involving a bank account reserved for UNDP funds at the DPRK state-owned Foreign Trade Bank (FTB) and a Chinese company known as the International Finance and Trade Joint Company (IFTJ), which acted as a conduit for the North Korean funds. Each transaction moved funds from the FTB bank account to an IFTJ account at a bank in the Chinese administered territory of Macau, and from there to DPRK diplomatic missions in the United States and Europe. Each of the wire transfers referenced UNDP. UNDP has stated that these transactions were wholly unrelated to its development projects, and North Korean officials have confirmed that the funds originated with the DPRK Ministry of Foreign Affairs and were not related to the UNDP.

By routing its funds through a bank account reserved for UNDP development funds, the North Korean government made a concerted effort to conceal the movement of its funds out of North Korea and into western financial institutions. North Korean officials explained to the Subcommittee that these transfers occurred soon after U.S. President George Bush's 2002 State of the Union address in which he described North Korea as part of an "axis of evil." North Korean officials told the Subcommittee that they expected sanctions against their country would be tightened and were concerned that their wire transfers would be barred or frozen. They told the Subcommittee that the Ministry of Foreign Affairs identified the UNDP-related account as a more secure channel to fund their embassies abroad.

4. UNDP transferred U.N. funds to a company that, according to a letter from the U.S. State Department to UNDP, has ties to an entity involved in DPRK weapons activity.

UNDP regularly made payments to contractors on behalf of other U.N. agencies operating in North Korea. During the course of its investigation, the Subcommittee learned that payments on behalf of other U.N. agencies – totaling approximately $50,000 – were made to an entity named Zang Lok Trading Co. in Macau. According to a letter dated June 7, 2007, to UNDP from the U.S. Permanent Mission to the United Nations, Zang Lok "has ties to a North Korean entity that has been designated [by the U.S. Government] as the main North Korean financial agent for sales of conventional arms, ballistic missiles and goods related to the assembly and manufacture of such weapons." UNDP maintains that it does not know, and has no way of knowing, whether Zang Lok is connected to North Korean weapons sales.

III. REPORT RECOMMENDATIONS

Based upon its investigation into United Nations Development Program operations in North Korea, the Subcommittee staff makes the following recommendations.

1. UNDP should provide U.N. member states with unfettered access to financial and management audit reports about UNDP activities, including providing timely copies of such reports and allowing U.N. member states to make audit information public.

Many of the Subcommittee's findings are drawn from an extensive analysis of three nonpublic audits of UNDP's DPRK operations conducted in 1999, 2001, and 2004, as well as a publicly available audit conducted in 2007. UNDP's practice has been to provide its Executive Board members with little more than annual reports that contain broad-brush overviews of its activities and expenditures and few, if any, specific analyses of development programs within particular countries. U.N. member states, including UNDP donors and recipients, need periodic, written program assessments to ensure that U.N. development aid is being used properly. UNDP regularly advocates transparency and accountability to the nations it seeks to assist; it should practice the same principles within its own organization. UNDP should approve a pending proposal to grant routine access to UNDP Executive Board members to UNDP audit reports, and should broaden the proposal to allow access to past audit reports, photocopying of the reports, and release of audit information to the public, absent exceptional circumstances. In addition, both Congress and the U.S. State Department should continue to press for routine access to all U.N. audit reports and the ability to release audit information to the public.

2. UNDP should ensure that whistleblowers do not face retaliation for reporting irregular or improper conduct.

The facts presented in this Report might not have come to light absent the actions of a UNDP official, Artjon Shkurtaj, who repeatedly raised concerns about UNDP practices in North Korea. Rather than supporting Mr. Shkurtaj, UNDP declined to renew his employment contract. When he filed a complaint alleging retaliation, UNDP declined to submit voluntarily to an Ethics Office review, later referring the matter to an ad hoc review team that is now considering it. While the U.N. Secretary-General recently announced a new effort to strengthen whistleblower protections across the United Nations, that effort is in the early stages and has been the subject of some criticism. U.N. personnel should be able to blow the whistle on waste, fraud, or abuse without fear of retribution. Both Congress and the U.S. State Department should

continue to press for the implementation of strong whistleblower protections at the UNDP and throughout the United Nations.

3. UNDP should take steps to ensure that its name and resources are not used as cover for non-U.N. activities.

North Korea's misuse of a bank account established for the sole purpose of receiving and disbursing UNDP development funds on U.N. projects is disturbing. UNDP asserts that it has accounted for all UNDP funds deposited into the account, that it had no knowledge of non-UNDP funds being deposited into the account, and that it had no way of knowing of any misuse of the account since the account was under the sole control of North Korean officials. To prevent similar misconduct in the future, UNDP should require the host country to establish a bank account designated for exclusive use on UNDP development projects, prohibit the deposit of any other funds in the account, and mandate, as a condition precedent for the receipt of development aid, that the host country designate UNDP as a secondary account signatory and authorize the financial institution to grant UNDP access to all account documentation so that UNDP can monitor the account activity. Both Congress and the U.S. State Department should press UNDP to take these steps.

4. Prior to making payments to a vendor, UNDP should take steps to ensure that the vendor is not associated with illicit activity.

It is troubling that UNDP paid U.N. funds to an entity that was later reported by the U.S. State Department to be connected to weapons proliferation activity. To be clear, UNDP appears to have made the payments unwittingly, the amounts of money were relatively small, and the payments were made on behalf of other U.N. agencies operating in North Korea at the time. Nevertheless, additional steps could and should be taken to prevent payments to entities associated with illicit activity. One step would be for the United Nations to take advantage of data that it has compiled on suspect entities as part of ongoing efforts to combat weapons and drug trafficking, terrorism, the sex trade, and money laundering, and improve the systems that U.N. agencies use to screen potential vendors. Improved data-sharing would strengthen the U.N.'s ability to avoid making payments to wrongdoers. In light of the high potential for abuse that exists when U.N. agencies operate in unstable, corrupt, or repressive countries, both Congress and the U.S. State Department should press the United Nations to strengthen systems that could be used by all U.N. Funds and Programs to determine whether potential vendors are associated with illicit activity.

IV. BACKGROUND

A. THE UNITED NATIONS DEVELOPMENT PROGRAM

The United Nations Development Program is the largest development agency in the United Nations system. Its mission is to channel and fund structural assistance to the developing world.[2] UNDP is dedicated to building democratic societies, reducing poverty, preventing crises, assisting in crisis recovery, protecting the environment, and curbing the AIDS epidemic around the world. Currently, UNDP is on the ground with 7,000 staff members in 166 countries.[3] About 75 percent of this staff is in the field and a majority of the field staff serves in their home countries.[4]

UNDP does not fall under the jurisdiction of the U.N. Secretariat, but instead is one of the U.N. Funds and Programs. Funding for UNDP is made up of voluntary contributions from participating countries. In its 2006 Annual Report, UNDP reports that more than 60 percent of its regular resources came from six countries - the Netherlands, Sweden, Norway, the United States, the United Kingdom, and Japan.[5]

The UNDP annual budget now totals about $5 billion. In addition, UNDP manages another $4 billion in development aid for other U.N. agencies and donor programs. In 2005, U.S. contributions to the UNDP totaled $247 million, which included $105 million towards the core budget, as well as $142 million for specific projects. The $105 million contribution represented 11.4 percent of UNDP's core budget.[6]

Since 1994, Federal law has required the United States to decrease its contribution to UNDP by a percentage equivalent to the percentage of UNDP's total budget represented by its expenditures in North Korea.[7] To implement this statutory requirement, Congressional practice has been to reduce the total amount of funds appropriated to UNDP by the percentage of UNDP spending in North Korea.

---

[2] UNDP, About UNDP, http://www.undp.org/about/.

[3] UNDP and DPRK, Informal Briefing Note for Subcommittee Investigators, Background on UNDP, November 12, 2007 (on file with the Permanent Subcommittee on Investigations). *Making Globalization Work for All*, United Nations Development Program Annual Report 2007 at 3, http://www.undp.org/publications/annualreport2007/IAR07-ENG.pdf ("UNDP Annual Report 2007").

[4] *Id.*

[5] UNDP Annual Report 2007 at 43. These 2006 figures were as of May 2007.

[6] U.S. Office of Management and Budget, *Report on U.S. Contributions to the United Nations System*, July 31, 2006. Beyond direct contributions to the core budget of UNDP, the United States also contributes to numerous funds and programs that are managed by UNDP and included in its aggregate budget numbers. This is due to the fact that UNDP plays a central role in coordinating and distributing U.N. funding within the framework of the "One U.N." system.

[7] Foreign Assistance Act of 1961, 22 U.S.C. 2227, Sec. 307 (1961).

Kemal Derviş is the UNDP Administrator and the third highest-ranking U.N. official after the Secretary-General and Deputy Secretary-General.[8] The Associate Administrator of UNDP is Adrianus Melkert.[9] UNDP is governed by an Executive Board comprised of 36 countries, whose membership rotates biannually.[10] The UNDP Executive Board adopts decisions by consensus instead of by a vote of the member states.[11] This system of consensus decision-making is meant to promote involvement of all the Executive Board members, although aligning the interests of such diverse countries can be difficult.[12]

In response to Subcommittee inquiries, UNDP has estimated that, from 1995 to 2005, UNDP spent a total of about $33.5 million in North Korea. Of that figure, approximately $6 million was spent on UNDP office, staff, and operating expenses, including roughly $100,000 per year in payments to local staff and contractors, and $500,000 per year spent on rent, office supplies, transportation, employee compensation, and other expenses. An ongoing external audit is expected to refine these estimates. In addition, the UNDP office in North Korea made payments and provided administrative support on behalf of other U.N. Funds and Programs operating in North Korea including the United Nations Population Fund and United Nations Office for Project Services, among others. Total expenditures by all U.N. agencies in North Korea – excluding the World Food Program – during the same ten-year timeframe have been estimated at roughly $200 million.

B. UNDP DEVELOPMENT STRATEGIES AND CHALLENGES

In UNDP, the development goals for a particular country are established by the Administrator and his staff, who identify and prioritize the needs of the host country. Development plans are then drafted and periodically revised. The final plans are executed in the host nations by UNDP's local offices.[13]

---

[8] UNDP, Who We Are and What We Do, Biography: Kemal Derviş, UNDP Administrator, http://www.undp.org/about/bio1.shtml.

[9] UNDP, Who We Are and What We Do, Biography: Ad Melkert, UNDP Associate Administrator, http://www.undp.org/about/melkert.shtml.

[10] UNDP, Executive Board, http://www.undp.org/execbrd/. The members in 2007 were Algeria, Angola, Benin, Central African Republic, Malawi, Senegal, Somalia, Uganda, Bangladesh, Bhutan, China, DPRK, India, Kazakhstan, Pakistan, Antigua and Barbuda, Ecuador, Guatemala, Guyana, Jamaica, Belarus, Serbia, Russian Federation, Ukraine, Belgium, Canada, Demark, Germany, Greece, Italy, Japan, Norway, Portugal, Spain, United Kingdom, and United States.

[11] UNDP, Executive Board, Decisions of the Executive Board, http://www.undp.org/execbrd/-decisions.shtml.

[12] UNDP, Newsroom, Kemal Derviş – Annual Session of the UNDP/UNFPA Executive Board, June 18, 2007, http://content.undp.org/go/newsroom/2007_june/statement-by-kemal-dervi-on-the-occasion-of-the-annual-session-of-the-undp-unfpa-executive-board.en.

[13] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

UNDP executes development projects through one of two modes: the Direct Execution Strategy (DEX) or the National Execution Strategy (NEX). Under DEX, UNDP directly funds and manages the projects, maintains control over the expenditure of project funds, hires contractors, and exercises oversight over all project aspects.[14]

In contrast, the NEX strategy is intended to empower the host country to take the lead on the development projects, with UNDP acting in a funding and monitoring capacity. Under NEX, the host country establishes a mirror agency to work directly with UNDP. This agency establishes a bank account into which UNDP deposits funds for the sole purpose of implementing development projects. Under NEX, the host country manages the projects, and UNDP retains only a limited measure of control through regular project monitoring and careful review of project expenses and receipts.[15]

Both the DEX and NEX approaches have merits and drawbacks in terms of promoting human development in host nations. It is axiomatic that UNDP operates in countries that face development challenges. These challenges can include weak management, bureaucratic inefficiency, underdeveloped economic and financial infrastructure, and endemic corruption. If the DEX strategy is used, UNDP retains control over most of the assets it expends in the host nation, and the possibility that projects will be mismanaged due to local problems is reduced. Nevertheless, DEX arguably reduces UNDP's ability to promote capacity development in the host country because local government agencies are denied the opportunity to learn valuable administrative and developmental skills. With NEX, capacity development opportunities are increased, but at the cost of increased risk of mismanagement by the host nation.[16]

In some countries, UNDP has developed what it terms a "hybrid" approach in which development projects are categorized as NEX projects, meaning the host country takes the lead on the projects, but under arrangements reached between the host country and local UNDP office, UNDP personnel retain major management and financing responsibilities. UNDP explained to the Subcommittee that this hybrid approach accomplishes two objectives: it respects sensitivities about national sovereignty and formal control over projects within a country's borders, and it allows UNDP to provide major assistance to a host country using UNDP management capabilities and controls. In North Korea, UNDP employed a mix of the DEX, NEX, and hybrid approaches.

---

[14] *Id.*

[15] *Id.*

[16] *Id.*

C. UNDP FIELD OFFICES

UNDP field offices are generally headed by a Resident Representative responsible for coordinating the UNDP's programs in the host country. Second in command is usually the Country Director. Two additional key senior positions in UNDP field offices are typically the Senior Program Advisor, who is responsible for managing and monitoring UNDP projects in the host country, and the Operations Manager, who is responsible for conducting the office's day-to-day administrative, financial, and security tasks.[17] The Operation Manager's responsibilities typically include cash management, such as handling banking transactions, keeping a ledger, and paying expenses.[18] These senior positions are typically filled by permanent UNDP employees who are often from outside the host country.[19]

UNDP opened its office in North Korea in 1981. UNDP's focus in the DPRK was on improving food production and economic and environmental management through workshops and study tours.[20] UNDP maintained a single field office in the capital city of Pyongyang. UNDP employees or contract personnel held the most senior positions, while local North Korean nationals held the remaining administrative, clerical, development, and other positions. The DPRK government did not permit UNDP to hire local staff directly from the local labor supply to fill available positions in its office.[21] Instead, UNDP was required to use DPRK government officials selected by the DPRK regime.[22]

The local officials who worked in the UNDP office in Pyongyang came primarily from the DPRK Ministry of Foreign Affairs or its subdivisions and retained their affiliation with the ministries that employed them. UNDP did not execute employment contracts with these individuals and did not conduct performance reviews of their work.[23] These local officials filled the following administrative and operations positions: National Officer, Finance Officer, Registry Assistant, RC Assistant, Administrative Assistant, IT/LAN manager,

---

[17] UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR 51 (2004). This is referenced throughout the Report as the "2004 audit."

[18] UNDP, Learning by User Role, Operations Manager – OnDemand Curriculum, http://ondemandweb.undp.org/OnDemandProduction/OnDemandWebPortal/UserRole-OperationsManager.shtml.

[19] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[20] UNDP, North Korea, UNDP, and DPR Korea, http://www.undp.org/dprk/.

[21] 2004 audit at 51.

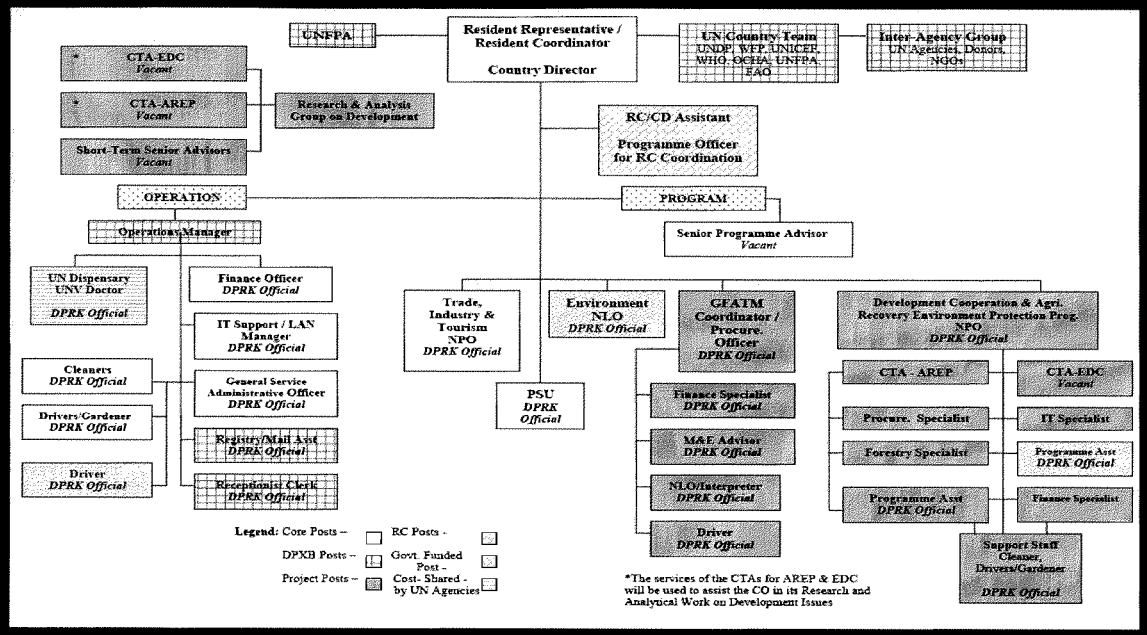
[22] Report of the Board of Auditors on the Special Audit requested by the ACABQ into activities of UNDP, UNFPA, UNOPS, and UNICEF in the Democratic People's Republic of Korea (DPRK) at ¶24, May 31, 2007. This is referenced throughout the report as the "2007 external audit."

[23] *Id.* at ¶22.

PSU Assistant, gardener, drivers, cleaner, and cook. In addition, they filled several project positions such as Environment Focal Point, AREP Focal Point, AREP Assistant, AREP gardener, drivers, cleaner, and cook.[24] Figure 1 below is an organizational chart, taken from a 2004 audit report examining the North Korean office, that shows the available office positions and those filled by DPRK officials.

[24] UNDP DPR Korea List of International Staff: 1995-present.

Figure 1. UNDP DPRK Organizational Chart[25]



[25] This organizational chart is dated December 2003 and appears in an audit report issued in 2004. The Subcommittee redacted the names of individuals to protect their identity and inserted the term "DPRK Official" to indicate which positions were filled by local staff.

D. UNDP RULES, AGREEMENTS, AND BEST PRACTICES

UNDP activities worldwide are governed by a complex patchwork of inter-related rules, agreements, and best practices. One key source of UNDP rules is a document called the "Internal Control Framework for UNDP Offices" issued by the U.N. Office of the Comptroller, located within the U.N. Bureau of Management. These rules delineate practices to be followed by every UNDP office on such matters as hiring, staffing, accounting, cash management, contracting and procurement, and project management. In addition, UNDP offices are bound by the UNDP Personnel Manual and the UNDP Financial Manual, which regulate staffing and finances procedures, respectively.

Although these and related materials provide detailed guidance and restrictions for UNDP field offices, they do not cover all of the specific situations that arise in the countries where UNDP operates. To address specific concerns and individual variations in practice, UNDP typically executes a Standard Basic Assistance Agreement (SBAA) with the host government in each country in which it operates.

In the case of North Korea, the UNDP and DPRK government entered into an SBAA in 1979. The North Korean SBAA speaks in broad terms about the obligations of the parties on issues related to local staffing, project monitoring, and UNDP personnel's living and working arrangements within the DPRK. The SBAA agreement does not, however, address some of the key matters at issue in this Report. For example, it does not address how local UNDP staff were to be selected or what currency should be used in UNDP operations, noting only that the DPRK government was obligated to provide UNDP a "lump sum mutually agreed between the Parties to cover" various expenditures.

In the absence of express SBAA provisions, over the years, UNDP reached a series of ad hoc arrangements with the DPRK government to address various issues. Some of these arrangements were described in internal UNDP memoranda; others were never committed to paper. For example, the two parties agreed informally that the UNDP would use DPRK government officials to serve as its local staff in the Pyongyang office, without entering into a formal written agreement on how the arrangement would work. The parties also agreed to certain currency and banking practices that changed over time, often as a result of requests made by the DPRK government. These practices were also not the subject of formal agreements.

Some of the UNDP arrangements were apparently unique to North Korea, responding to the country's isolated status, unusual governance and economic infrastructure, and use of one of the few currencies in the world that is not convertible to any foreign currency. By 2006, UNDP

in North Korea operated under a mix of the standard rules set forth in UNDP internal control, personnel, and finance publications; the obligations set forth in the North Korean SBAA; and the ad hoc arrangements, often unwritten, that had evolved over the more than 25 years that UNDP operated in the country.

To test adherence to its rules and best practices, UNDP periodically conducts audits of its field operations. In North Korea, audits were performed in 1999, 2001, 2004, and 2007.[26] The reports from the first three audits were nonpublic documents and, in accordance with UNDP policy, were made available only to UNDP management personnel. Until 2007, these audit reports were not provided to or reviewed by UNDP Executive Board member states. The fourth audit, which was commissioned after allegations of mismanagement appeared in the press, was released to both the Executive Board and the public. All four audits identified management and operational practices in North Korea that did not adhere to UNDP rules and best practices.

E. WITHDRAWAL FROM NORTH KOREA

In 2005, Artjon Shkurtaj, an Albanian national who had worked periodically as a contractor on various UNDP projects, was hired to serve as the Operations Manager of the UNDP office in North Korea. Beginning in March 2005, he described what he perceived to be management and operational deficiencies in the North Korean operations in a series of emails sent to his superiors over a period of months. He later reported his concerns to the UNDP Office of Audit and Performance Review, and to the Under-Secretary-General of the United Nations for Management. In May 2006, Mr. Shkurtaj spoke privately about his concerns with Ambassador Mark Wallace of the U.S. Permanent Mission to the United Nations.

Ambassador Wallace sought additional information about the North Korean operations from UNDP, exchanged a series of letters with UNDP senior administrators, and raised management and operational concerns with the UNDP Executive Board. In March 2007, in an unprecedented action, UNDP suspended its operations in North Korea and informed the DPRK government that it would be unable to continue operating in the country unless, among other steps, the DPRK government agreed to accept all UNDP payments using the North Korean local currency, permitted UNDP to select the local staff who

---

[26] The audits were the UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR (1999); UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR (2001); and UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR (2004). They are referenced throughout this Report as "1999 audit," "2001 audit," and "2004 audit." The Report of the Board of Auditors on the Special Audit requested by the ACABQ, May 31, 2007 (2007 external audit).

would work in its offices, and ensured on-site project inspections would take place without delays.[27] North Korea declined to agree to these changes in UNDP operations within the country, and negotiations over these and other matters broke down. In April 2007, UNDP withdrew its staff from North Korea and closed its office in Pyongyang.

V. MANAGEMENT AND OPERATIONAL DEFICIENCIES OF THE UNDP PROGRAM IN NORTH KOREA

The Subcommittee investigation revealed deficiencies in staffing, fiscal controls, security, and program oversight that ultimately rendered UNDP operations in North Korea vulnerable to manipulation and misuse.

A. UNDP STAFFING DEFICIENCIES IN NORTH KOREA

The Subcommittee identified three staffing deficiencies in UNDP's DPRK operations, relating to the hiring of local staff, the payment of their salaries and expenses with foreign currency, and associated security concerns.

1. Use of DPRK Officials

UNDP maintained a single office in North Korea, located in the nation's capital, Pyongyang. In keeping with UNDP's standard practice in other host countries, its office was staffed by a mix of international personnel selected by UNDP and local North Korean nationals.

UNDP's relationship with its local DPRK staff, however, did not comport with UNDP's standard practice. For instance, UNDP did not have the option of selecting local staff required to carry out its projects and conduct its day-to-day business in North Korea.[28] Instead, UNDP was required to use DPRK government personnel who were selected by the DPRK regime and assigned to UNDP for a period of time. These local officials came primarily from the DPRK Ministry of Foreign Affairs or its subdivisions and retained their affiliation with the ministries that employed them. Moreover, contrary to its established practices, UNDP did not execute employment contracts with these individuals and did not conduct performance reviews of their work.[29]

---

[27] Report of the First Regular Session of 2007 of the UNDP Executive Board (April 2007 report describing the January 2007 session), ¶¶33-42 available at http://www.undp.org/-execbrd/pdf/dp07-15e.pdf.

[28] 2004 audit at 51.

[29] *Id.* at 6.

UNDP has advised the Subcommittee that its Executive Board was fully apprised of this situation, and that all multilateral organizations operating in North Korea were required by the DPRK to use North Korean officials for their local staff.[30] The 2001 annual report to the Executive Board, for example, explicitly notes this practice and describes it as representing a continuing challenge.[31] UNDP explained further that it had agreed to this practice in North Korea because the North Korean economy did not include private employment, there was no labor pool of persons available for private hire, and North Korean citizens were normally assigned to their work by the government.

UNDP made these same arguments to the auditors that conducted an extensive review of its operations in North Korea in 2007. The 2007 external audit, however, concluded that the UNDP staffing practices in North Korea were "contrary to relevant instructions and procedures."[32] The audit determined that UNDP rules require UNDP field offices to select the local staff and to conduct performance reviews of their work.[33] Moreover, after North Korea declined to accept a change in practice to allow UNDP more control over the local staff hiring process, the UNDP Executive Board determined that UNDP had to withdraw from North Korea. This decisive action indicates that, when the staffing issue was brought to the attention of the Executive Board, it viewed DPRK control over UNDP local staff hiring decisions to be inconsistent with UNDP rules and best practices.

2. Use of Foreign Currency in Lieu of Local Currency

According to UNDP, "no DPRK local personnel were ever employed by UNDP or the U.N. system in DPRK."[34] UNDP nevertheless made salary payments for the services provided by the North Korean officials assigned to its Pyongyang office. UNDP sent

---

[30] Subcommittee interview of UNDP officials. See also 2007 external audit at ¶17.

[31] 2007 external audit at ¶24 (citing 2001 audit).

[32] *Id.* at ¶17. Despite this unambiguous conclusion, the audit presented a mixed picture of the relevant UNDP rules on staff recruitment. It noted, for example, that the 1979 Standard Basic Assistance Agreement signed by UNDP and North Korea does not designate the procedure for local employment. It cited an unsigned "service agreement" between UNDP and the North Korean government dated February 10, 1981, for describing the formal practice and procedures for employing local staff. It also referenced the UNDP Personnel Manual. The audit report identified three specific deficiencies in the local staff recruitment practices used in North Korea: (i) the DPRK appointment of only one candidate for a job where UNDP would require a list, (ii) the lack of letters of appointment, and (iii) the lack of appropriate documentation for these employees. The audit report also acknowledges, however, that the UNDP Personnel Manual does not specifically address the situation faced by UNDP's Pyongyang office.

[33] *Id.*

[34] UNDP Management Response to the Special Audit of the United Nations Operations in the Democratic People's Republic of Korea (UNDP Management Response to 2007 audit), Comment 22, June 1, 2007.

these salary payments, not to the individuals doing the work, but directly to the DPRK government using "manual cheque payments."[35] Meal allowances were also provided by UNDP using a financial mechanism known as a "cash-check" made out to the individual entitled to the meal.[36]

The UNDP practice worldwide is to pay local salaries and expenses with local currency.[37] But in North Korea, UNDP (and all other U.N. agencies) paid local staff salaries and expenses with convertible currency, using the "convertible Won,"[38] U.S. Dollars, or Euros, depending upon the year.[39] UNDP officials advised the Subcommittee that payments were made with these convertible currencies, rather than the local currency, even after the UNDP office suspected that the DPRK regime was not forwarding all of the payments to the local staff, but – in the words of one UNDP official – was "skimming" from the payments and providing the local officials with significantly less that the listed amounts.[40]

The 2007 external audit of UNDP operations in North Korean determined that, "[i]n respect to foreign currency transactions, local payments made in foreign currencies were without requisite authority…."[41] In its response to the audit, UNDP disagreed, stating, "The authority to approve Financial Regulations is vested solely in the Executive Board of UNDP. The UNDP Financial Regulations and Rules do not contain a stipulation on the utilization of currencies."[42]

In addition, UNDP told the Subcommittee that paying in local currency could be costly. If all payments in North Korea were made in local currency, UNDP explained that it would be required to routinely exchange convertible currency for the local North Korean Won at inflated conversion rates set by the North Korean government. UNDP notes that, during the relevant time period, the exchange rate set by the North Korean government was roughly 150 Won to the Dollar, but that the more accurate exchange rate was 3,000-4,000 Won to the Dollar. According to UNDP, payments in convertible currency eliminated the

---

[35] 2007 external audit at ¶36.

[36] According to UNDP, a "cash-check" is not written out to "cash," but rather is written to an individual or other entity. The check addressee could then endorse the check to a third party who could cash it at the North Korean-owned Foreign Trade Bank where the UNDP had its accounts.

[37] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[38] "Convertible Won" describes currency designated by the North Korean government to be exchanged for foreign currency; the local currency was not convertible.

[39] 2007 external audit at ¶36.

[40] Subcommittee interview of UNDP officials, October 30, 2007.

[41] 2007 external audit at ¶17.

[42] UNDP Management Response to 2007 audit.

opportunity for North Korea to improperly profit from inflated exchange rates and transaction fees. While this analysis provides important context, the Subcommittee also learned that UNDP had accrued a significant amount of local Won from payments made by the North Korean government (known as Government Local Office Contributions, or GLOC payments), which UNDP could have used to make payments inside North Korea if North Korea had agreed to accept its own local currency from U.N. agencies.

As a result of the differing views on using local currency, UNDP told the Subcommittee that UNDP has since amended its regulations to permit the head of UNDP to make "the best use of currencies available to the organization," in effect leaving the matter to the discretion of the Administrator, to be delegated as needed.[43] When the matter was brought to the attention of the UNDP Executive Board in 2007, however, the Board concluded that all UNDP payments in North Korea, whether for local staff or other expenses, should be made using the local currency. North Korea declined to agree to this change in practice, and the UNDP Executive Board determined that UNDP had to withdraw from the country. As with the local staff recruitment issue, this decision indicates that the UNDP Executive Board viewed the former UNDP practice to be inconsistent with UNDP rules and best practices.

3. DPRK Monitoring of UNDP Communications and Personnel

A third staffing issue involves security and communications concerns presented by operating in North Korea. UNDP security officers believed that the "government monitor[ed] all correspondence and [was] reluctant to allow radios and satellite phones."[44] Moreover, the regime apparently entered private residences of the U.N. international staff to conduct searches when the residents were not present.[45] The lack of secure communications, coupled with the presence of DPRK officials throughout the UNDP office, made it virtually impossible for UNDP to make any plans or conduct private conversations without the possibility that the DPRK government was watching or listening.

Mr. Shkurtaj complained about this problem in a 2005 email to his superiors, composed and sent from China to avoid monitoring by North Korean officials:

---

[43] Subcommittee interview of UNDP officials, January 16, 2008.

[44] Email from UNDP Security Coordination Officer, May 23 2006 (reviewed by Subcommittee staff in UNDP's Washington, D.C. Office).

[45] *Id.*

> Basically, the access to safe and reliable communication is not only becoming a safety issue for UNDP DPR Korea, but also a major stress-related component. We cannot communicate in a transparent way what we think as well as cannot neither dare to write a reasonable email, since our internal network is managed from a "national staff."[46]

UNDP officials told the Subcommittee that they were aware of the monitoring and assumed that the security of all North Korean communications and correspondence was compromised. However, UNDP took no steps to remedy the matter because of the expense involved in ensuring secure communications.[47]

B. UNDP FISCAL CONTROLS

A second set of deficiencies involves the adequacy of UNDP fiscal controls in its North Korean operations. Specifically, the Subcommittee identified deficiencies involving UNDP's ability to conduct and monitor its banking transactions in North Korea and its fiscal controls over disbursements of cash to North Korean nationals.

1. UNDP Banking Transactions

To conduct business in North Korea, UNDP maintained three bank accounts at the Foreign Trade Bank (FTB), which is owned and controlled by the DPRK government. One account held nonconvertible local currency, the North Korean Won. That account was intended to be used by UNDP to receive GLOC payments and from which UNDP made rental and utility payments for housing and other local costs. A second account held "convertible Won" and was intended to pay travel costs, salaries to local staff, and office costs. The "convertible Won" account was funded from a third account, which contained foreign currency.[48] The foreign currency account held U.S. Dollars until late 2002 and Euros thereafter.[49] It was used by UNDP to pay international staff salaries, rental and consultant costs, and directly attributable project costs.[50] As noted above, however, UNDP's use of convertible currency and local currency within North Korea changed over time and did not appear to be pursuant to any written set of rules or procedures.

Although it maintained three accounts at the bank, UNDP was not given direct physical access to the Foreign Trade Bank where its accounts were located. Instead, UNDP was required to use drivers

---

[46] Email from Artjon Shkurtaj to UNDP headquarters, September 27, 2005.

[47] Subcommittee interview of UNDP officials, October 24, 2007.

[48] 2007 external audit at ¶55.

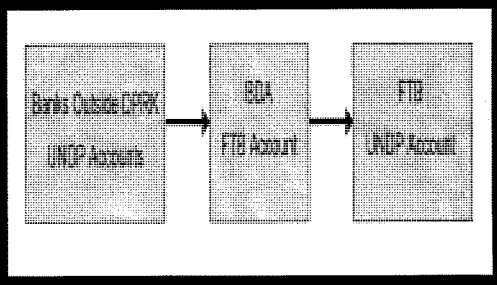
[49] Subcommittee interview of UNDP officials, October 31, 2007.

[50] 2007 external audit at ¶55.

selected and employed by the DPRK regime to travel to the bank on its behalf.[51] These drivers then executed the financial transactions requested by UNDP.[52] The result was that UNDP personnel were not physically present when its bank transactions were executed and were unable to exercise close oversight over these financial transactions. Moreover, UNDP stated that the FTB refused for many years to provide UNDP with copies of its cancelled checks, although it provided other documentary evidence of its bank transactions. In the summer of 2007, FTB allowed UNDP officials to photocopy cancelled checks dating back several years.[53]

According to UNDP, depositing foreign currency into its account at the FTB in North Korea required use of a financial intermediary in China. Because FTB did not have correspondent bank accounts with western financial institutions, UNDP funds were routinely routed through Banco Delta Asia (BDA), a small, family-owned bank located in Macau, a special administrative territory of China. The transactions typically began with UNDP transferring funds from its accounts in western banks to BDA. BDA then transferred the funds to FTB for credit to UNDP's foreign currency account. These transfers are illustrated in Figure 2. When making direct payments inside North Korea, UNDP transferred convertible currency (convertible Won, U.S. Dollars, or Euros, depending on the year) from its FTB account to other FTB accounts held by North Korean entities.[54]

Figure 2. Diagram Reflecting UNDP Transfer of Funds to UNDP's FTB Account in Pyongyang



[51] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

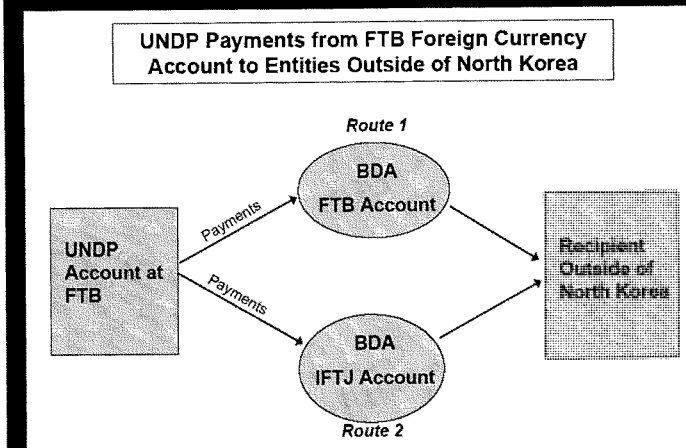
[52] *Id.*

[53] *Id.*

[54] *Id.*; Subcommittee review of records generated by BDA.

UNDP's payments from its FTB foreign currency account to entities outside of North Korea followed a similar route. According to financial documents reviewed by the Subcommittee, outgoing UNDP payments, such as transfers to non-North Korean contractors or suppliers, followed one of two routes. Funds were either transferred: (a) out of UNDP's account at FTB through BDA to the ultimate recipient;[55] or (b) out of UNDP's account at FTB to a BDA account held in the name of a Macanese company, International Finance and Trade Joint Company (IFTJ), and then from the IFTJ account to the ultimate recipient.[56] These different payments methods are reflected in the diagram in Figure 3.

Figure 3. Diagram Reflecting Methods of Payment from UNDP to Entities Outside North Korea



UNDP advised the Subcommittee that, until the Subcommittee provided copies of the relevant wire transfer documents in 2007, UNDP had no knowledge that IFTJ had been a party to some of its financial transactions that moved funds from North Korea.[57] As explained below in Section VI. B.1, evidence gathered by the Subcommittee investigation indicates that IFTJ was closely intertwined with the North Korean

[55] Appliaation [sic] for Payment Order, Banco Delta Asia S.A.R.L., Beneficiary Sindok Trading Pte Ltd., Applicant IFTJ on September 9, 2002, in the amount of $229,997.00.

[56] Application for Payment Order, Banco Delta Asia S.A.R.L., Beneficiary: Delegation Generale de la R.P.D. de Coree de Paris, Applicant: IFTJ on April 10, 2002, in the amount of $300,000.00.

[57] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

government, and served as a conduit for funds transferred from the DPRK through the DPRK-owned Foreign Trade Bank.

UNDP's inability to use its own staff to execute its banking transactions, its inability to obtain copies of its cancelled checks, and the routing of its outgoing payments through an unrelated bank account were practices that not only were incompatible with normal banking practice, but also undermined UNDP's fiscal controls and ability to monitor its financial transactions. UNDP's willingness to operate under these constraints in North Korea appears inconsistent with UNDP rules and best practices.

2. Cash Disbursements to North Korean Nationals

The former Operations Manager of the UNDP office in Pyongyang alleged that the office routinely disbursed large amounts of cash to unidentified North Korean nationals, in contravention of UNDP rules and best practices.[58] UNDP disputes this allegation, claiming that the only funds disbursed in cash in North Korea were for amounts of $50 or less.

The UNDP's position appears to be at odds with several records reviewed by the Subcommittee. For example, the minutes of a December 8, 2005, meeting of the Operations Management Team, which included all operations chiefs of the various U.N. entities present in North Korea, contains the following statement:

> CASH payments should be eliminated and U.N. Agencies should be allowed to effect payments to third parties (individuals and/or institutions) in Check or EFT (Bank Transfer)[.][59]

Moreover, a 2006 internal memorandum issued by the UNDP Resident Representative who headed the Pyongyang office expressed alarm over the increasing use of cash for payments to unauthorized individuals and

---

[58] See, for example, Melanie Kirkpatrick, *A Whistleblower's Tale*, The Wall Street Journal, July 8, 2007. The article contains the following quotation attributed to Mr. Shkurtaj: "Rule No. 1 in every UNDP country in the world is that you have to operate in local currency, not in hard currency ... in order to support the local economy and not devalue or destroy the local currency. ... Every morning from 8 to 10, we would issue checks [in Euros]. ... Then the checks, instead of going directly to the people or institutions by mail ... were given to the driver of our office [who would] exchange them into cash [at the Foreign Trade Bank] and come back to the office. ... [At noontime,] North Koreans saying they represented U.N.-funded projects would come to receive cash at the UNDP offices. ... I had to trust them [without obtaining signed receipts or checking identification]. But, hey, if headquarters tells me to give the money away, I'll give the money away."

[59] Notes from Subcommittee review of documents at the offices of UNDP, Washington, D.C.

reminded personnel that UNDP policy was to use electronic funds transfers or non-cash checks to make payments.[60]

UNDP officials told the Subcommittee that the references to cash in these documents are misleading because these documents had been issued in response to earlier, inaccurate allegations made by the Operations Manager about the use of cash in North Korea.[61] UNDP officials also told the Subcommittee that the words "cash" and "cash-checks," which appear extensively in internal UNDP emails and memoranda, reflect either a misunderstanding of the method of payments used in North Korea, or refer to the "cash-checks" endorsable to third parties.

Absent access to key financial records in Pyongyang, the Subcommittee was unable to verify the extent to which cash payments were made in North Korea, but the evidence reviewed by the Subcommittee supports further inquiry. A forensic audit of UNDP financial records is now underway and may resolve this issue.

In sum, the UNDP office operated under extensive banking constraints in North Korea that undermined its fiscal controls and ability to monitor its financial transactions. Nonetheless, UNDP told the Subcommittee that its review of its FTB records, which remain in Pyongyang and were unavailable to the Subcommittee, demonstrates that it received receipts for all of its transactions at the bank.[62] UNDP officials indicated further that, although the constraints were difficult, it was able to operate with sufficient fiscal controls to ensure funds were spent properly within North Korea.

C. UNDP DEVELOPMENT PROJECTS IN NORTH KOREA

UNDP has publicly described two approaches to managing its development projects within a host country. Under the Direct Execution Strategy (DEX), UNDP personnel maintain primary management and financial control over projects; under the National Execution Strategy (NEX), management control is conveyed to the host country while UNDP personnel provide periodic funding and project oversight. In North Korea, in consultation with the government, UNDP adopted a hybrid of the DEX and NEX approaches to implement its development projects.

To facilitate the NEX projects, the DPRK Ministry of Foreign Affairs established a mirror agency called the National Coordinating

---

[60] United Nations Development Programme Interoffice Memorandum from Timo Pakkala, August 16, 2006.

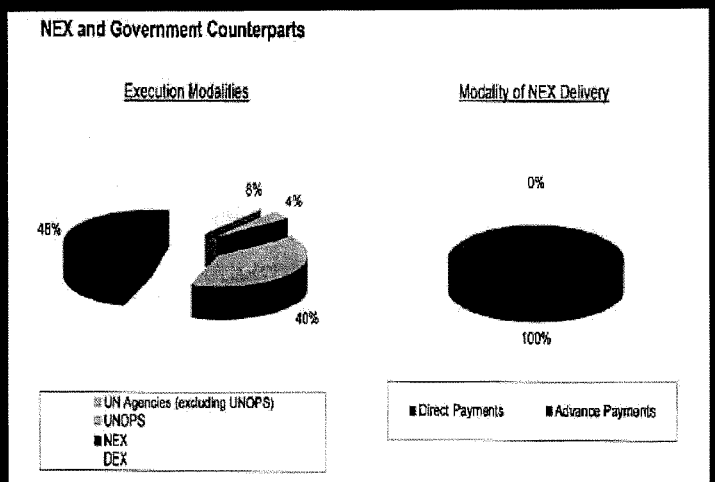
[61] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[62] *Id.*

Committee for UNDP (NCC UNDP).[63] As the mirror agency of the UNDP, the NCC UNDP was the entity in the North Korean government designated to receive UNDP funds for use on UNDP development projects.[64] To receive UNDP funds, NCC UNDP established a bank account with the FTB. The North Korean government established similar mirror entities for all UN agencies operating in the DPRK.[65]

In the 2004 audit of UNDP operations in North Korea, NEX projects were listed as representing 48 percent of the 2003 "budget value" for development projects, while DEX projects accounted for only 8 percent.[66] Figure 4 reprints the relevant portion of the 2004 audit addressing this issue.

Figure 4. Excerpt from UNDP Internal Audit (2004) Showing Breakdown of NEX/DEX Modalities



Out of the total budget value of on-going projects of $12 m, 48% is NEX, 40% is executed by UNOPS, 8% is DEX and the remaining 4% by other agencies. The Office is providing 100% support services to NEX projects in terms of direct payments.

The Office's main Government counterparts are the Ministry of Foreign Affairs and the General Bureau for Cooperation with International Organisations, Ministry of Foreign Trade.

---

[63] *Id.*

[64] *Id.*

[65] *Id.*

[66] 2004 audit at 9.

Because the 2004 audit depicted the NEX projects as constituting 48 percent of UNDP's total "budget value" for ongoing projects, a reviewer of the audit could mistakenly interpret the data as indicating that out of the total 2003 project budget of $12 million, roughly $6 million must have been transferred directly to the DPRK government.

However, by agreement with North Korea, UNDP had maintained control of nearly all of the NEX projects' financing and management. In fact, UNDP informed the Subcommittee that, over an eight-year period from 1999 until the program's suspension in 2007, its records showed that it had transferred no more than about $380,000 of UNDP project funds to the NCC UNDP bank account.[67]

UNDP advised the Subcommittee that it had retained control over the vast majority of funds assigned to the NEX projects because the DPRK regime had privately requested that UNDP execute the development projects. UNDP officials explained to the Subcommittee that, by directly controlling funds that were ostensibly slated to be managed nationally, UNDP accomplished two objectives: it respected sensitivities about national sovereignty and formal control over projects within a country's borders, and it executed the projects using UNDP management and controls.

Because UNDP's arrangement with North Korea regarding its NEX projects was not fully explained in the 2004 audit, that audit led to confusion over the amount of direct payments actually made to North Korea. In a follow-up clarification on the subject,[68] UNDP pointed out that the audit states that UNDP "undertakes all procurement of goods and services on behalf of NEX projects."[69] UNDP also stated that the auditors understood that a hybrid strategy, using the auspices of NEX but with the formal control of a DEX strategy, was in effect in North Korea. UNDP told the Subcommittee that it employs a similar hybrid approach to NEX projects in other countries as well as North Korea.

When asked whether UNDP had apprised the Executive Board of this arrangement in North Korea, UNDP initially replied that it had not

---

[67] United Nations Development Program (UNDP), *Responses to Recent Allegations about UNDP Programs in North Korea (DPRK)*. UNDP told the Subcommittee that it based these calculations on a data search of its financial system, known as ATLAS. UNDP provided the Subcommittee with a briefing on its internal financial controls and a demonstration and real-time search of its ATLAS system for various expenditures related to its North Korean operations. However, the Subcommittee was not given unfettered access to the system, nor has the Subcommittee had the opportunity to review the original receipts and records maintained by UNDP in its Pyongyang office. The Subcommittee was thus unable to confirm the UNDP estimates of the total funds transferred to the DPRK regime over the last eight years.

[68] Information provided to the Subcommittee by UNDP, January 22, 2008.

[69] 2004 audit at 26.

because the Executive Board had not sought such information.[70] Later, UNDP provided the Subcommittee documents indicating that the Executive Board had been advised of the existence and details of the hybrid strategy.[71]

D. PROGRAM OVERSIGHT AND ACCOUNTABILITY

A final set of management and operational deficiencies examined by the Subcommittee involves UNDP program oversight and accountability in North Korea, including restricted project monitoring, inadequate and inaccessible program audits, and insufficient whistleblower protections.

1. Project Monitoring

UNDP's worldwide practice is to require its field personnel to conduct site visits to development projects to ensure that the projects are progressing as expected. Providing adequate access to projects is an explicit condition to receiving development funds in most country agreements, including the 1979 Standard Basic Assistance Agreement with North Korea.[72] Despite the importance attached to site visits, the DPRK government did not permit UNDP to access a project site without prior approval, requested at least one week in advance of a visit. Moreover, project visits were conducted under the direct supervision of North Korean authorities.[73]

UNDP maintains that the restrictions on its project visits did not prevent it from conducting adequate oversight because: (1) many of the projects it funded were training programs, where the monitoring was effected by simply confirming attendance, and (2) the on-site monitoring performed in the company of North Korean officials was sufficient to ensure that funds were applied appropriately.[74] Under the SBAA, however, the North Korean government was obliged to permit UNDP "free movement within or to or from the country, to the extent necessary for the proper execution of UNDP assistance."[75] The requirements of prior notice and government supervision appear inconsistent with this obligation.

---

[70] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[71] Information provided to the Subcommittee by UNDP, January 22, 2008.

[72] Standard Basic Assistance Agreement between UNDP and the DPRK, Article IV, Sections 2, 3 and Article X, Section 1, November 11, 1979.

[73] 2007 external audit at ¶¶86-88.

[74] UNDP management response to 2007 audit at 2.

[75] Standard Basic Assistance Agreement between UNDP and the DPRK, Article X, Section 1, November 11, 1979.

2. Adequacy of Internal Audits

UNDP conducted internal audits of its North Korean operations in 1999, 2001, and 2004. In addition to the potential confusion generated by the omission of a discussion of the hybrid NEX/DEX strategy discussed above, the audits were limited in scope and appear to contain incomplete information with respect to project execution and expenditure information. For example, the 2004 audit lists twelve categories that fall within the purview of the internal auditors, including operations, management, development services, and IT and communications efficiency.[76] However, of these twelve areas, only five were reviewed, and in one of these areas – management – UNDP's DPRK operations were deemed deficient due to the continuing use of short-term contractors to fill the Operations Manager post.[77] In addition, the 2007 external audit concluded that UNDP internal auditors made no field visits to North Korea over a four-year period from 2002 to 2006.[78] UNDP has now requested a second external audit of its North Korean operations to review the scope of the problems, including total funds impacted. That audit is underway.

3. Access to Internal Audits

In accordance with UNDP policy, the internal audits of UNDP's operations in North Korea were available to UNDP management personnel, but not to nations serving on the UNDP Executive Board, much less other U.N. member nations or the public. After allegations of improprieties first arose, Ambassador Mark Wallace, U.S. Representative to the United Nations for Management and Reform, requested that UNDP provide the U.S. Mission to the United Nations (USUN) with budgetary and audit information regarding its operations in North Korea.[79] According to USUN, UNDP personnel initially provided contradictory information, followed by a more comprehensive, formal response in December 2006.[80] UNDP's formal response included several pieces of information that it indicated had been taken from the internal UNDP audits.[81] USUN then sought access to those internal audits and other records.[82] UNDP initially refused to provide

---

[76] 2004 audit at 12. The areas are: country level program; management; knowledge-sharing and implementation of practices; partnerships and resource mobilization; support to U.N. coordination; advocacy services; development services; HR administration; procurement, inventory and office premises; financial resources; general administration; and IT and communications.

[77] *Id.* at 12, 14-19.

[78] 2007 external audit at ¶96.

[79] Series of Subcommittee interviews with USUN representatives between May and June 2007.

[80] Letter from Ambassador Wallace to UNDP Administrator Kemal Derviş, December 22, 2006.

[81] Letter to Ambassador Wallace from Associate Administrator Melkert, January 5, 2007.

[82] Letter from Ambassador Wallace to UNDP Administrator Derviş, January 8, 2007.

access to the audit reports. After repeated requests, however, UNDP ultimately permitted Ambassador Wallace to review the audit reports on site, but forbid him from retaining copies of them.[83]

U.N. member states that are denied access to U.N. audits are denied relevant and timely information about program operations and have few alternative means of ensuring that U.N. contributions are being spent properly. Had UNDP audits of its North Korean operations been contemporaneously available for review by members of the UNDP Executive Board, the Board members could have evaluated the practices and determined what actions to take, if any, to address concerns. The Executive Board's decision to suspend operations in North Korea following the disclosures made in the 2007 external audit, which included a detailed summary of UNDP's prior internal audits, underscores this point.

In response to U.S. concerns, UNDP Administrator Kemal Derviş has proposed making internal audit reports available to members of the UNDP Executive Board. This proposal applies only to future audit reports and will allow member states to view redacted reports without making copies or taking materials outside of UNDP headquarters in New York.[84] The Executive Board is slated to consider the new audit proposal at its meeting on January 22, 2008.

4. U.N. Ethics Policy and Whistleblower Protections

Artjon Shkurtaj was the Operations Manager of the UNDP office in Pyongyang from March 2005 to September 2006.[85] Mr. Shkurtaj apparently began raising concerns about the DPRK program in March 2005. In particular, he identified problems with the manner in which payments were made, the use of foreign currency for certain payments, insufficient project monitoring, counterfeit U.S. currency, and the lack of secure communications in the UNDP office in Pyongyang. Mr. Shkurtaj raised these issues with his supervisors in a series of emails stretching over a period of several months. Mr. Shkurtaj also contacted the UNDP Office of Audit and Performance Review to request a special audit of UNDP DPRK.

---

[83] Letter from Ambassador Wallace to Ad Melkert, January 16, 2007.

[84] UNDP states that names and other "sensitive" information will be removed prior to making internal audits available for review by member states. Information provided to the Subcommittee by UNDP, January 22, 2008.

[85] Subcommittee interview of UNDP officials, October 24, 2007. Prior to joining the UNDP staff in Pyongyang, Mr. Shkurtaj had worked in a variety of positions in the U.N. system through a series of intermittent short-term contracts from February 1996 to November 2004, totaling about 29 months of employment.

Dissatisfied with UNDP's response to the management and operational issues he had raised, Mr. Shkurtaj eventually contacted Christopher Burnham, the Under-Secretary-General of the United Nations for Management, concerning the management lapses he had observed in the operations of the UNDP office in Pyongyang. In addition, in May 2006, he spoke privately with Ambassador Wallace of USUN about the same matters.

In March 2007, UNDP did not renew Mr. Shkurtaj's employment contract, even though it had regularly renewed his contract at three-month intervals throughout 2005 and 2006. Mr. Shkurtaj has advised the Subcommittee that UNDP terminated its relationship with him in retaliation for reporting management problems in North Korea. UNDP has told the Subcommittee that no such termination occurred and that Mr. Shkurtaj's contract simply expired.

Mr. Shkurtaj later filed a request for protection from retaliation with the newly-formed United Nations Ethics Office, the agency created by then-U.N. Secretary-General Kofi Annan in the wake of the Oil-for-Food scandal to handle whistleblower retaliation cases. Mr. Shkurtaj's complaint alleged that the UNDP had retaliated against him because of his reports to his superiors.

In August 2007, the U.N. Ethics Office issued a ruling in response to Mr. Shkurtaj's claim of retaliation. In a letter issued by the Director, Robert Benson, the Ethics Office concluded that "the information received by the Ethics Office would have supported a determination that a prima facie case of retaliation has been established." But the letter also stated that "from a purely legal perspective, the Ethics Office does not have the jurisdiction to address a request for protection from retaliation in relations to cases arising from the UNDP" because the office had determined that its jurisdiction was limited to the U.N. Office of the Secretariat and therefore did not cover UNDP or any of the U.N.'s other Funds and Programs.[86] The letter stated further that the Ethics Office had urged UNDP to voluntarily submit to the jurisdiction of the Ethics Office because it would be in the "best interests of the United Nations and UNDP," but that UNDP had declined. In the following month, September 2007, UNDP appointed a board of outside investigators, referred to as the Independent Investigative Review (IIR), to examine allegations of ethics and regulatory violations by UNDP in

[86] Letter from Robert Benson, Director, Ethics Office, to Kemal Derviş, Administrator, UNDP, August 17, 2007.

North Korea, including Mr. Shkurtaj's claim of retaliation. The IIR is expected to release its findings in early 2008.[87]

The Ethics Office conclusion that its jurisdiction was restricted to the U.N. Secretariat was a significant development. Former Under-Secretary-General of the United Nations for Management Christopher Burnham, who drafted the 2005 bulletin establishing the United Nations' whistleblower protection policy, believed that the bulletin was intended to apply to the entire U.N. system, not just the Secretariat.[88] The result of the Ethics Office ruling in August 2007 was that none of the ethics policies and whistleblower protections established by the U.N. Ethics Office applied to any U.N. Fund or Program outside of the Secretariat.

To address this gap in coverage, in November 2007, U.N. Secretary-General Ban issued a new bulletin to be read in conjunction with the earlier bulletin that created the U.N. Ethics Office.[89] The November 2007 bulletin stated that, as of January 1, 2008, employees of U.N. Funds and Programs would be afforded the same protections as staff in the Secretariat and directed each U.N. agency to establish its own ethics office and whistleblower protections. The bulletin also provided that, if an agency failed to designate an appropriate ethics officer, then the U.N. Ethics Office would have jurisdiction over that agency. The bulletin also created a new U.N. Ethics Committee, to be chaired by the head of the Ethics Office of the U.N. Secretariat. This Committee will hear appeals from the individual ethics offices and is intended to create uniform ethics policies and whistleblower protections for the entire United Nations.[90] The bulletin's decision to create multiple ethics offices within the United Nations has a number of critics, and it remains to be seen how it will be executed.[91]

---

[87] UNDP, Newsroom, Independent Investigative Review of UNDP Operations in DPRK, September 25, 2007, http://content.undp.org/go/newsroom/2007/september/dprk-20070925-.en;jsessionid=axbWzt8vXD9.

[88] Subcommittee interview of Christopher Burnham, September 22–23, 2007; Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[89] Secretary-General's bulletin, *United Nations system-wide application of ethics: separately administered organs and programmes*, United Nations Secretariat, U.N. Doc. ST/SGB/2007/11, November 30, 2007.

[90] *Id.*

[91] Press Release, Government Accountability Project, *New U.N. Ethics Guidelines Greatly Misleading*, December 4, 2007, at http://www.whistleblower.org/content/press_detail.cfm?press_id=1253. For example, the Government Accountability Project ("GAP"), a nonprofit public interest group that represents some U.N. employees who are requesting whistleblower protection, objects to the new policy because it entails the establishment of potentially costly new offices and the creation of an extra layer of bureaucracy. Moreover, GAP claims that the new system lacks protection for witnesses, confidentiality obligations for ethics officers, and interim relief for employees. Thus, GAP maintains, the bulletin "complicates and confuses the issue" due to the proliferation of "ad hoc internal ethics offices, operating at the pleasure of the

E. ANALYSIS

UNDP operations in North Korea are a case study of an international agency's attempts to achieve development goals in a restrictive environment. UNDP rules and regulations require its personnel to function with management, transparency and accountability safeguards. These safeguards were compromised, however, by the DPRK government's insistence – and UNDP's acquiescence – on using DPRK officials as local staff, paying them with foreign currency, utilizing the government-owned bank while being denied access to the bank's premises, operating without secure communications, and conducting site visits with government monitors in tow.

UNDP officials told the Subcommittee that, despite these constraints, it was able to successfully implement development projects that benefited ordinary North Koreans. While this may be true, by operating under the compromised conditions set forth in this Report, UNDP rendered itself vulnerable to manipulation by the North Korean government. For example, UNDP continued to pay DPRK officials in foreign currency even after it suspected the regime of "skimming" money from the payments. It failed to respond to the complaints of its Operations Manager in productive ways. When a UNDP member state inquired about the management problems in North Korea, UNDP repeatedly impeded access to audit reports that examined those problems. UNDP refused to submit Mr. Shkurtaj's retaliation claim to the U.N. Ethics Office, thereby weakening its status and authority, causing the fracture of what was intended to be a U.N.-wide ethics program, and undermining confidence that UNDP employees can report suspected mismanagement without fear of reprisal.

The Subcommittee is mindful that many of the matters discussed herein are under review by the Independent Investigative Review panel and another external audit team, which the Subcommittee has been advised will have unfettered access to UNDP's management and financial records. The IIR and second external audit should resolve pending questions about some of the management and operational issues identified in this Report.

---

heads of these agencies." GAP estimated that as many as fifteen new ethics offices will need to be established within the Funds and Programs at a minimal cost of around $300,000 per year.

VI. THE DPRK USED ITS RELATIONSHIP WITH THE UNITED NATIONS TO EXECUTE DECEPTIVE FINANCIAL TRANSACTIONS

A. SUMMARY OF NINE TRANSFERS TOTALING $2.72 MILLION

Evidence obtained by the Subcommittee reveals that, from April to September 2002, the North Korean government used the cover of the UNDP's presence in the DPRK to move $2.72 million of its own funds out of North Korea. The North Korean government told the Subcommittee that the transfers were made through a UNDP-affiliated account in order to avoid international scrutiny and possible sanctions that it believed were imminent.

Wire transfer records and other documents from U.S. and foreign financial institutions show that the North Korean government transferred the funds from Pyongyang to its diplomatic missions abroad, using as a conduit a Chinese company known as the International Finance and Trade Joint Company (IFTJ). Each transaction moved funds from the NCC UNDP bank account at the Foreign Trade Bank in Pyongyang to an IFTJ account at Macau-based Banco Delta Asia. From there, the funds were transferred to North Korean diplomatic missions in the United States and Europe. The wire transfers referenced the NCC UNDP account, which was to be used solely for UNDP-funded development projects inside North Korea. UNDP stated that these transactions were wholly unrelated to its development projects,[92] and DPRK officials have confirmed that the funds belonged to the Ministry of Foreign Affairs and were not related to the UNDP or any development projects.[93]

The transactions are analyzed in detail below. Before examining the transactions individually, however, two of the entities at the center of these transfers – IFTJ and Banco Delta Asia – are described in more detail.

B. IFTJ AND BANCO DELTA ASIA

1. IFTJ and Its Relationship With North Korea

The International Finance and Trade Joint Company is a Macau-based firm[94] established by Chinese nationals Madam Lam Cheng and Mr. Chio Keng Chon in 1992 and registered to Ms. Lam Cheng as a

---

[92] Subcommittee interview with UNDP officials, October 31, 2007.

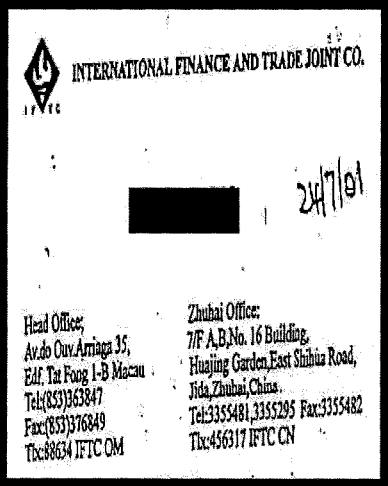
[93] Subcommittee interview with officials from the North Korean Permanent Mission to the United Nations, January 16, 2008.

[94] Contribuicao Industrial, Declaracao de incio de actividade for International Finance and Trade Joint Co., April 30, 1992.

sole-proprietorship trading firm.[95] It calls itself a "trading company," but an analysis of relevant records by U.S. executive agency officials shows that IFTJ transactions do not indicate any traditional commercial trading activity.[96]

The evidence indicates an exceptionally close relationship between IFTJ and the Foreign Trade Bank, described by North Korean officials as the DPRK's primary international commercial bank.[97] For instance, Banco Delta Asia records state that "[t]he objective of setting up [IFTJ was] to make viable the co-operative agreement with the Foreign Trade Bank of North Korea for the purpose of facilitating trade."[98] IFTJ's office in Macau was staffed by six persons simultaneously employed by the Foreign Trade Bank.[99] Moreover, business cards from representatives of FTB and IFTJ reveal that the two entities share office space and the same telephone, fax and telex lines. Those business cards are reproduced below as Figure 5 and Figure 6.

Figure 5. Business Card of IFTJ Employee Dated July 24, 2001


INTERNATIONAL FINANCE AND TRADE JOINT CO.

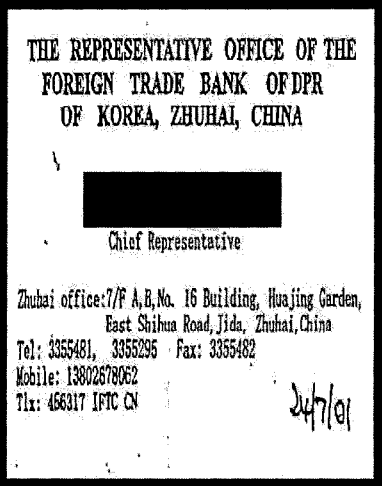
[redacted]

24/7/01

Head Office:
Av.do Ouv.Amaga 35,
Edf. Tai Fong 1-B Macau
Tel:(853)363847
Fax:(853)376849
Tlx:88634 IFTC OM

Zhuhai Office:
7/F A,B,No. 16 Building,
Huajing Garden,East Shihua Road,
Jida,Zhuhai,China.
Tel:3355481,3355295 Fax:3355482
Tlx:456317 IFTC CN

Figure 6. Business Card of FTB Employee Dated July 24, 2001


THE REPRESENTATIVE OFFICE OF THE
FOREIGN TRADE BANK OF DPR
OF KOREA, ZHUHAI, CHINA

[redacted]

Chief Representative

Zhuhai office:7/F A,B,No. 16 Building, Huajing Garden,
East Shihua Road, Jida, Zhuhai,China
Tel: 3355481, 3355295 Fax: 3355482
Mobile: 13802878062
Tlx: 456317 IFTC CN

24/7/01

---

[95] Ernst & Young, Banco Delta Asia S.A.R.L. Report to the Administrative Committee at 38, December 16, 2005.

[96] Subcommittee interview with U.S. executive agency officials, December 4, 2007.

[97] Subcommittee interview with officials from the North Korean Permanent Mission to the United Nations, January 16, 2008.

[98] Banco Delta Asia internal memorandum.

[99] Subcommittee interview with U.S. executive agency officials, December 4, 2007.

Over a span of four years, at least three employees switched back and forth between IFTJ and the Foreign Trade Bank in rapid succession. For example, letters, business cards and internal memoranda from both FTB and IFTJ list several employees who were exchanged between or shared by the two companies. The evidence includes the following:

- A memo dated July 30, 2001, in which IFTJ cancelled the authority of Mr. Sin Hyok and gave authority to Employee #1, a representative for FTB according to his business card dated just a few days earlier;[100]
- A business card of Employee #2 dated July 24, 2001 [Figure 6], which indicates that he was Chief Representative of FTB, and an IFTJ memo dated just a few days later (July 30, 2001), identifying that same individual (Employee #2) as a dealer for IFTJ;
- A July 31, 2003, letter from IFTJ identifying Employee #2 as an employee of IFTJ [Figure 7], and a document dated a few weeks later, September 12, 2003, in which that same person, Employee #2, is listed as Chief Representative of the FTB Zhuhai branch [Figure 8]; and

[100] The names of these employees have been removed to protect their identities and the sources of this information.

Figure 7. Letter Identifying Employee #2 as an Employee of International Trade & Finance Joint Co. (Dated July 31, 2003)

FROM : FAX NO. : Jul. 31 2003 12:22PM P1

Pls File at

INTERNATIONAL FINANCE AND TRADE JOINT CO.

Av. da Praia Grande No.405, China Law Building 20-andar-B, Macau
Telex: 88634 IFTC OM
Tel: 373847,373848 Fax: 373849

To : Delta Asia Financial Group – Delta Asia Credit Limited
C.C. : Banco Delta Asia S.A.R.L., Macau – Mr. Edward Ngou
IFTC, Zhuhai – [redacted]
Date : 31st July 2003

Re : New arrangement

Dear Sirs,

Regarding to our arrangement of the Foreign Exchange and Gold/Silver dealing, please kindly to adjust with the following details and effective from 1st August 2003:

The authority of [redacted] has been cancelled and Mr. Kim Tong Chol will instead of him. The dealers are [redacted] and Mr. Kim Tong Chol now.

Thanks for your kind attention in this matter.

Yours truly,

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

Authorized Signatures

Figure 8. Excerpt of Fax Identifying Employee #2 as a Senior Member of a Delegation from FTB (Dated September 2003)

To: Mr. David Lam

Fr: Vivian Wong

[redacted]

Re: Name List of FTB Delegation to Macau

1. Mr. O Kwang Chol President
2. Ms. Pak Sun Ae General Director
3. Mr. Pae Je Gang Senior Manager
4. [redacted] [redacted]

- A memo from BDA's parent entity, the Delta Asia Financial Group, dated July 30, 1997, in which Employee #3 is identified as a representative of IFTJ, and a BDA memo dated September 29, 1997, which identifies Employee #3 as a representative of the FTB Zhuhai branch.

The extent and nature of the relationship between IFTJ and the Foreign Trade Bank indicates that IFTJ may have functioned as a front company for the Foreign Trade Bank, which was in turn owned and controlled by the North Korean government.

2. Banco Delta Asia

Banco Delta Asia, a part of the Delta Asia Group, is a bank headquartered in Macau, an administrative territory of China. On September 15, 2005, pursuant to Section 311 of the USA PATRIOT Act, the United States Treasury Department designated BDA a "primary money laundering concern" due to "an unacceptable risk of money laundering and other financial crimes."[101] As a result, Treasury's Financial Crimes Enforcement Network issued a rule prohibiting U.S. financial institutions from directly or indirectly establishing, maintaining, administering or managing any correspondent account in the United States for or on behalf of Banco Delta Asia.

---

[101] United States Treasury Department, Press Room, *Treasury Designates Banco Delta Asia as Primary Money Laundering Concern Under USA PATRIOT Act*, JS-2729, September 15, 2005, http://www.ustreas.gov/press/releases/js2720.htm.

Once BDA was listed by the Treasury Department, the Macanese Monetary Authority commissioned Ernst & Young to conduct a lengthy review of the bank's procedures.[102] Ernst & Young found that the bank had poor document control with regard to IFTJ in particular, and a bank employee stated that the bank conducted little review of IFTJ transactions because of its longstanding relationship with the bank.[103] Ernst & Young concluded that FTB and IFTJ remitted millions of Dollars and Euros between their accounts at Banco Delta Asia.[104] Upon reviewing the remittances, Ernst & Young classified the transfers involving FTB and IFTJ at BDA as carrying "the highest risk of money laundering" of the transactions reviewed at the bank.[105]

Compounding this risk, BDA did not provide Ernst & Young with any commercial justification or information regarding these transactions. Moreover, Ernst & Young concluded that BDA lacked adequate record keeping, which prevented it from determining both the total value of the remittances and their direction and destination.[106] Figure 9 below contains the relevant excerpt from the Ernst & Young report.

---

[102] Ernst & Young, Banco Delta Asia S.A.R.L. Report to the Administrative Committee at 77, December 16, 2005 (on file with the Subcommittee).

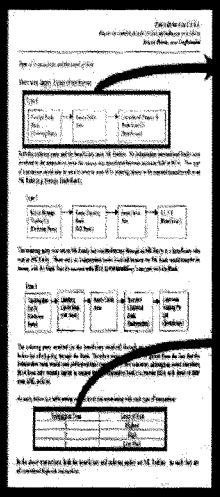
[103] *Id.* at 69-78

[104] *Id.* Remittances are non-credit transfers of money.

[105] *Id.* at 69-78.

[106] *Id.*

Figure 9. Excerpt of Ernst & Young Report Categorizing FTB-BDA-IFTJ Transactions As Representing the Highest Risk of Money Laundering



Type 1

Foreign Trade Bank (Ordering Party)	Banco Delta Asia	International Finance & Trade Joint Co.

Transaction Type	Level of Risk
1	Highest

C. WIRE TRANSFER DOCUMENTATION

The transactions at issue in this Report follow the same pattern as those uncovered by Ernst & Young. Evidence obtained by the Subcommittee establishes that $2.72 million was transferred in nine increments from NCC UNDP's account at the Foreign Trade Bank in Pyongyang to IFTJ's account at Banco Delta Asia. Once IFTJ received the funds at its BDA account, it transferred the funds to North Korean diplomatic missions in the United States and Europe. The wire transfer documents described the transfers as taking place by order of or on behalf of the "National Coordinating Committee for UNDP" and characterized the transfers as being for the acquisition of real estate in Canada or the United Kingdom.

On April 10, 2002, for example, BDA documents indicate that IFTJ requested that $300,000 be transferred from its account to Banque Commerciale Pour L'Europe Du Nord for the benefit of Delegation Generale de la RPD de Coree de Paris, the North Korean Embassy in France. The transfer documents also carry the message: "B/O NATIONAL COORDINATING COMMITTEE OF THE DPRK FOR UNDP COVER BUILDING N [sic] HOUSES." On May 3, 2002, IFTJ requested that an additional $300,000 be transferred to the France

mission. On May 10, 2002, IFTJ requested that an additional $220,000 be transferred to the same account.

On July 17, 2002, IFTJ requested that $300,000 be transferred to the Bank of America National Trust and Savings Association in New York, for credit to Nordea Bank in Sweden, for the benefit of the North Korean Embassy in Sweden. The document contained the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP ... PAYMENT FOR PURCHASE OF BUILDING (UK)." IFTJ's application for this wire transfer to BDA is reproduced below as Figure 10. On August 14, 2002, IFTJ transferred an additional $300,000 under the same circumstances.

Figure 10. BDA Record of IFTJ Application for Wire Transfer of $300,000 to DPRK Embassy in Sweden for "Purchase of Building (UK)"

= Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 17th JUL 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary: EMBASSY OF DPR OF KOREA IN SWEDEN

Address: (if enquired)

A/c No. of Beneficiary: [redacted]

Name of Receiving Bank: BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN

Message (if any): B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127
MSG: PAYMENT FOR PURCHASE OF BUILDING(UK)

Amount in words & figures (USD.300,000.00)
U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.

Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.

ID / Passport No.:

[redacted] 09:42:26 2002/07/17 T/C1 0156 I.F.T.J.
[redacted] TRD 929 / TRFDEP $300,000.00 USD
[redacted] TRN [redacted] TRFWDR $300,000.00 USD

373848

Tel No.:

FOR OFFICE USE ONLY

Draft / Ref. No.: BDD/RT/077/436P/02

Paying Agent:

Rate: HK Equivalent

Cable / Postage

Commission: [redacted] HKD 20.00

Total*

BDA/DF/OTT/2367/02
Payment of the above remittance XXXXXX
☐ By cash
☐ By cheque
☒ (subject to final clearance)
☐ Please debit my / our account no.: [redacted]
☐

We hereby warrant that this transfer is made subject to the conditions printed on the reverse side hereto.

Signature(s) of Applicant(s)

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

BRANCH COPY

Message (if any): B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127
MSG: PAYMENT FOR PURCHASE OF BUILDING(UK)

Amount in words & figures (USD.300,000.00)
U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.

Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.

ID / Passport No.:

On August 21, 2002, IFTJ requested that $300,000 be transferred to JP Morgan Chase Bank in New York, for the benefit of the Permanent Mission of the DPRK to the United Nations. The document carried the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP...PAYMENT FOR PURCHASE OF BUILDING (CANADA)."

On August 30, 2002, IFTJ transferred an additional $300,000 under the same circumstances.

On September 3, 2002, IFTJ requested that BDA transfer $300,000 to HSBC Bank Plc. to the Embassy of DPRK in London with the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP…PAYMENT FOR PURCHASE OF BUILDING." On September 9, 2002, IFTJ requested that BDA transfer $400,000 to JP Morgan Chase Bank in New York for the benefit of the Permanent Mission of the DPRK to the United Nations with the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP … PAYMENT FOR PURCHASE OF BUILDING (CANADA)."

A chart summarizing each of these transactions is contained in Figure 11.

Figure 11. Chart Summarizing Transactions from IFTJ to DPRK Embassy Accounts for Purchases of Buildings Purportedly Related to UNDP Activity

DATE	ORIGINATOR OF FUNDS TRANSFER	NAMED RECIPIENT OF FUNDS TRANSFER	MESSAGE ATTACHED TO THE TRANSFER	AMOUNT
April 10, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62-077	$300,000
May 3, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62087	$300,000
May 10, 2002	IFTJ (BDA Account)	Delegation Generale de la RPD de Coree de Paris	B/O NCC for UNDP Cover Building N Houses, Ref. TTB62-090	$220,000
July 17, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in Sweden	B/O NCC for UNDP, Ref. TTB62-127 Msg: Payment for Purchase of Building (UK)	$300,000

DATE	ORIGINATOR OF FUNDS TRANSFER	NAMED RECIPIENT OF FUNDS TRANSFER	MESSAGE ATTACHED TO THE TRANSFER	AMOUNT
August 14, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in Sweden	B/O NCC for UNDP, Ref. TTB62-139 Msg: Payment for Purchase of Building (UK)	$300,000
August 21, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York USA	B/O NCC for UNDP, Ref. TTB62-144 Msg: Payment for Purchase of building (Canada)	$300,000
August 30, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York, USA	B/O NCC for UNDP, Ref. TTB62-150 Msg: Payment for Purchase of building (Canada)	$300,000
September 3, 2002	IFTJ (BDA Account)	Embassy of DPR of Korea in London	B/O NCC for UNDP Ref TTB62-152 Msg: Payment for Purchase of Building	$300,000
September 9, 2002	IFTJ (BDA Account)	Permanent Mission of the DPR of Korea to New York USA	B/O NCC for UNDP Ref TTB62-155 Msg: Payment for Purchase of Building (Canada)	$400,000
TOTAL				**$2,720,000**

To verify the authenticity and accuracy of the Banco Delta Asia documents, the Subcommittee obtained the corresponding wire transfer documents for the transactions that involved banks located in the United States, Bank of America and JP Morgan Chase. These wire transfers confirmed that five of the transactions depicted in the BDA documents actually took place and resulted in the transfer of substantial sums to

DPRK-controlled bank accounts in the United States and Europe. North Korean officials confirmed that the transactions had been conducted at the direction of their government.[107]

D. ACTIONS TAKEN TO DISGUISE TRANSFERS

1. North Korea Confirmed Transfers Had No Connection to U.N. Activity

After confirming the existence and mode of the transactions through the evidence summarized above, the Subcommittee contacted the North Korean Permanent Mission to the United Nations in New York, representatives of which agreed to discuss the matter. The Subcommittee showed evidence of the transactions to the North Korean officials and requested additional information that could assist the Subcommittee in determining their purpose. After seeking instructions from their government in Pyongyang, the North Korean officials told the Subcommittee that the $2.72 million came from accounts held by the North Korean Ministry of Foreign Affairs, was unconnected with UNDP activity, and did not include UNDP funds. The officials said that the North Korean government executed the transactions in an effort to move as much money out of North Korea as possible prior to the imposition of sanctions that it believed were imminent following the 2002 State of the Union address in which President George W. Bush named North Korea as part of an "axis of evil."[108]

While the Subcommittee has no way of verifying the motives of the North Korean government, the information provided by its officials confirmed that the transfers had occurred, and that they were part of a concerted effort by the DPRK to move funds in a manner designed to attract minimal attention from financial regulators.

2. Reference to UNDP in Wire Transfers

Each of the nine transfers contained a reference to the NCC UNDP, even though the transfers had no relation to UNDP activity. When shown the bank documentation related to the transactions, UNDP stated emphatically that (1) it had no knowledge of these transfers, (2) UNDP monies were not involved in the transactions, and (3) the transfers, as described in the wire documents, were unrelated to any UNDP-funded or supported projects.[109] Moreover, UNDP told the Subcommittee that the $2.7 million transferred over six months in the

---

[107] Subcommittee interview with officials from the North Korean Permanent Mission to the United Nations, January 16, 2008. Applications for payment from IFTJ to DPRK embassy accounts. Confirmations of the Chase Bank and Bank of America transactions.

[108] *Id.*

[109] United Nations Development Program, Informal Briefing Note for Subcommittee Investigators, *Detailed Responses to 23 July USUN Letter*, November 12, 2007.

nine transactions at issue is roughly seven times larger than the total amount that UNDP transferred to NCC UNDP over the eight-year period from 1999 through 2007. These large sums provide additional support for the statements by the UNDP and North Korea that the transactions were unrelated to U.N. activity and did not involve UNDP funds.

The North Korean officials told the Subcommittee that the country had used its relationship with the United Nations to disguise the nine transactions. The Subcommittee confirmed with U.S. regulators that references to U.N. agencies in wire transfer documentation can facilitate transfers that would otherwise draw additional scrutiny from regulators and anti-money laundering specialists in financial institutions.[110]

3. Involvement of IFTJ

The North Korean government maintained accounts at BDA in Macau, but chose not to route the nine transfers at issue through those accounts. Instead, North Korea routed the nine transfers through the IFTJ account at BDA as part of its effort to disguise the fact that the transfers originated in North Korea. IFTJ was effectively a front for the North Korean government, helping it move large sums to western banks at a time when North Korea was concerned that its transfers might be blocked or subject to other sanctions.

During this same period of time, North Korea made other wire transfers through its own accounts at BDA, without using the IFTJ account, when the amount of money was more in line with routine transactions. For example, during the week of September 9, 2002, the Ministry of Foreign Affairs transferred $20,000 directly from its account at the Foreign Trade Bank, via BDA, to the bank account of its Permanent Mission to the United Nations in New York. Later that same week, however, North Korea transferred $400,000 from its account at FTB to the IFTJ account at BDA (on behalf of NCC UNDP) and from there to its Permanent Mission in New York.

4. Reference to Real Estate

In addition to routing the nine transfers through the IFTJ account and referencing the UNDP in the wire transfer documentation, the North Korean government added another layer of subterfuge to these transactions by including in the wire transfers misleading references to the purchase of real estate. These references are confusing in that the location of the embassies receiving the transfers did not correlate with the location of the real estate that was supposedly to be purchased. The two transfers to the Swedish embassy account, for instance, were purportedly for the purchase of buildings in the United Kingdom; it is

---

[110] Subcommittee interview with U.S. executive agency officials.

unclear why the DPRK would need to transfer funds to Sweden for the purchase of U.K. real estate. Similarly, the three transfers for purchases of real estate in Canada were directed to the DPRK's Permanent Mission to the United Nations in New York City.

The Subcommittee also discovered that at least one $300,000 remittance to an account for the North Korean diplomatic mission in Sweden was almost immediately forwarded to the account of the DPRK's Permanent Mission to the United Nations in New York. This double transfer renders the stated purpose of the transfer to the Swedish embassy – "Payment for Purchase of Building (UK)" – implausible. It is possible that the reference to the purchase of "buildings" and "houses" was intended to provide additional cover to explain the transfer of hundreds of thousands of dollars at one time.

E. ANALYSIS

UNDP told the Subcommittee that, until the Subcommittee showed it the wire transfer documentation, it had been unaware of the nine transfers in 2002. UNDP also told the Subcommittee that it does not dispute the authenticity of the records or the fact that the transactions occurred, although it was unable to verify any of the referenced real estate purchases in Canada, the United Kingdom, Sweden, or France.[111] At the same time, UNDP disclaimed any responsibility for the misuse of the NCC UNDP account because its agreement with the DPRK did not proscribe such activity, UNDP had no way of knowing the activity was taking place since it involved an account under the sole control of the North Korean government, UNDP had no authority to monitor that account activity, and the transfers involved North Korean and not UNDP funds.[112]

The use of a U.N.-affiliated bank account by a host government to engage in deceptive financial transactions and minimize international scrutiny of its funding transfers is both novel and disturbing. While UNDP funds were not involved in these particular transactions, they could be in a future incident. The Subcommittee does not conclude that the deceptive financial transactions executed by the North Korean government would have been prevented had UNDP's management been more vigilant. However, the deficiencies indicate a culture of compromise in the face of North Korean constraints such that the North Koreans could reasonably conclude that transfers of funds under cover of UNDP affiliation would go unnoticed. To reduce its vulnerability to similar or more egregious conduct in the future, UNDP needs to take steps to protect itself from abuse.

---

[111] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[112] Subcommittee interview of UNDP officials, October 31, 2007.

VII. TRANSFERS OF U.N. FUNDS TO A COMPANY THAT, ACCORDING TO THE U.S. STATE DEPARTMENT, HAS TIES TO AN ENTITY INVOLVED IN DPRK WEAPONS ACTIVITY

A. UNDP AND ZANG LOK

UNDP regularly made payments to contractors on behalf of other U.N. agencies operating in North Korea. During the course of its investigation, the Subcommittee learned that payments on behalf of two U.N. agencies – totaling approximately $50,000 – were made to an entity named Zang Lok Trading Co. in Macau. According to a letter dated June 7, 2007, to UNDP from the U.S. Mission to the United Nations, Zang Lok "has ties to a North Korean entity that has been designated [by the U.S. Government] as the main North Korean financial agent for sales of conventional arms, ballistic missiles and goods related to the assembly and manufacture of such weapons."[113] The relevant portion of that letter is reproduced as Figure 12 below.

[113] Letter from U.S. Ambassador Mark Wallace to UNDP Associate Administrator Ad Melkert, June 7, 2007.

Figure 12. Excerpt of USUN Letter to UNDP Describing Zang Lok

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

June 7, 2007

By Hand Delivery

Mr. Ad Melkert
Associate Administrator
United Nations Development Programme
One United Nations Plaza, Room 2118
New York, New York 10017

Dear Mr. Melkert:

Thank you for taking the time to meet with me today and for the meeting with Mr. Dervis yesterday. As promised we are providing specific information related to our concerns. Because of the detailed nature of our concerns, for your convenience I have outlined the points that we raised today in this letter.

As you know the United States is greatly concerned with the operations of UNDP in various country programs including in the DPRK.

The United States is concerned about UNDP transactions on its own behalf or on behalf of other UN organizations with two entities in particular. One is an entity known as Zang Lok Trading Co. (Zang Lok) and the other is International Finance and Trade Joint Co. (IFTJ). Both are based in Macau.

Zang Lok has ties to a North Korean entity that has been designated under United States laws (E.O. 13382) as the main North Korean financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.

Figure 13 and Figure 14 below present redacted excerpts from two wire transfer documents authorizing transfers from UNDP to Zang Lok. The first excerpt depicts the transfer of $29,450.00 from "UNDP Pyongyang DPR of Korea" to "Zang Lok Trading Co. Ltd.," dated April 16, 2002. UNDP told the Subcommittee that this payment was made on behalf of the World Intellectual Property Organization ("WIPO"). The second excerpt depicts the transfer of $4,024.15 from UNDP to Zang Lok, dated May 28, 2004. UNDP told the Subcommittee that this payment was made on behalf of the United Nations Educational, Scientific and Cultural Organization (UNESCO).[114]

Figure 13. Excerpt of BDA Record of Wire Transfer from UNDP to Zang Lok Dated April 16, 2002

```
20 /SENDER'S REFERENCE
   602EMG022
23B/BANK OPERATION CODE
   CRED
32A/VAL DTE/CURR/INTERBNK SETTLD AMT
   020416USD29450,
                        2002-04-16
                        US Dollar
                                                29450,00
50K/ORDERING CUSTOMER
   UNDP PYONGYANG DPR OF KOREA
59 /BENEFICIARY CUSTOMER
   /[redacted]
   ZANG LOK TRADING CO LTD
70 /REMITTANCE INFORMATION
   COMPUTER EQUIPMENT AND ACCESSORIES
   (INVOICE ZU/001)
71A/DETAILS OF CHARGES
   OUR
```

BDA/RE/ OTT/IR/23/7/02
Charges: USD300 –
Net Amount: USD29450 –
Corr. Bank: nil
Value Date: 16/4

[114] *Update on the most recent U.S. allegations*, document provided by UNDP to the Subcommittee on July 10, 2007. Banco Delta Asia credit slip for Zang Lok Trading Co Ltd. on May 28, 2004. Records of wire transfers from UNDP to Zang Lok on April 16, 2002 and May 28, 2004.

Figure 14. Excerpt of BDA Record of Wire Transfer from UNDP to Zang Lok Dated May 28, 2004

[redacted]行有限公司
Banco Delta Asia S.A.R.L.

CREDIT ADVICE
DATE: 28-May-04

摘要 PARTICULARS	金額 AMOUNT
BEING AMOUNT CREDITED TO YOUR ACCOUNT WITH DETAILS AS FOLLOWS:	
OUR REF. NO.: BDA/RE/R/1844/04	
FROM: UBS AG LAUSANNE	USD 4,024.15
THEIR REF. NO.: [redacted] LESS OUR CHGS	12.84
BY ORDER OF: UNDP	
MESSAGE : KR000014	
合計 TOTAL:	USD 4,011.31

TO
ZANG LOK TRADING CO LTD
[redacted]

We Credited Your Account As Per Details Above.
For Banco Delta Asia S.A.R.L.
[redacted]
Authorized Signatures

C[redacted]1A(02/03)

RCVD * RE/A/0512/-2/04. CONCERNING OUR SWIFT MT103 DATED
RCVD * 11-MAY-04 WITH TRN REF 3411131ZD3798471 FOR USD
RCVD * 4 024.15 VALUE 11-MAY-04
RCVD *
RCVD * /BY ORDER OF/ UNDP /IN FAVOUR OF/
RCVD * ZANG LOK TRADING CO., LTD [redacted] AVENUE
RCVD * [redacted] R/C-C MACAU MO A/C: [redacted]
RCVD * PLEASE READ CORRECT BENEFICIARY AS FOLLOWS:
RCVD * ZANG LOK TRADING CO LTD
RCVD * [redacted] AVENUE [redacted] R/C C MACAU A/C:
RCVD * [redacted]

UNDP records indicate that, from 1999 to 2007, it paid a total of approximately $52,000 to Zang Lok, on behalf of WIPO and UNESCO.[115] UNDP says its role in these transactions was simply to execute payments to Zang Lok, the specific vendor requested by WIPO and UNESCO. UNDP did not have any transactions with Zang Lok on its own account.[116]

It does not appear that the UNDP, or the U.N. agencies on whose behalf UNDP was acting, knew of – or had any way of knowing – whether Zang Lok was connected to an entity involved with DPRK weapons activity at the time the payments were made. Even now, absent Ambassador Wallace's June 7, 2007, letter to UNDP, it is unclear

---

[115] UNDP demonstrated its internal financial system ATLAS to Subcommittee staff at UNDP headquarters in New York. The Zang Lok payments were shown to Subcommittee staff during the demonstration.

[116] *Update on the most recent U.S. allegations*, document provided by UNDP to the Subcommittee on July 10, 2007.

whether UNDP has any way to determine the nature of Zang Lok. The matter is discussed in a Classified Annex to this Report.[117]

B. UNDP'S VETTING PROCEDURES

UNDP's procurement and payment procedures are subject to U.N. rules and best practices, including resolutions of the United Nations Security Council. With respect to North Korea, United Nations Security Council Resolutions 1695 and 1718 passed soon after an apparent test of a nuclear device by the North Korean government in October 2006. UNSCR 1718 created the "1718 Committee," which maintains a list of "persons or entities designated by the Committee or by the Security Council as being engaged in or providing support for, including through other illicit means, DPRK's nuclear-related, other weapons of mass destruction-related and ballistic missile-related programmes, or by persons or entities acting on their behalf or at their direction ..." Under UNSCR 1718, all UNDP purchases are to be vetted against this list, which is sent to all UNDP contract officers regularly for vetting local purchases. In addition, UNDP conducts random checks of local purchases through its central financial system. UNDP has advised the Subcommittee that it maintains additional vendor lists for disqualified or suspended vendors (on grounds of poor performance, fraud, corruption, or other misconduct) developed specifically for its own procurements and based on experience with vendors or information derived from other U.N. agencies and national programs.

C. INFORMATION SHARING ON VENDOR LISTS

UNDP has not advised the Subcommittee as to whether it seeks input from other U.N. Funds and Programs, or the Secretariat, when it creates its internal list for screening vendors. Relevant to this issue is the recent work conducted by the U.N. Procurement Task Force.

In October 2007, the Procurement Task Force issued the following recommendation:

> **B. Removal and suspension of vendors and dissemination of information**
>
> 71. The Task Force found and OIOS considers that there is a conspicuous need for improved information-sharing between different parts of the United Nations and a more robust response to vendors when their malfeasance is identified. When an adverse finding is made in relation to a company, it is essential that such a finding be disseminated to all concerned parties. For example, the Task Force has

---

[117] See OSS#2008-0049; OSS#2008-0050; OSS#2007-2104; OSS#2007-2146 (on file with the Security Office of the U.S. Senate).

conducted an investigation where a company was found to be acting corruptly in one peacekeeping mission. Thereafter, this company was found to be conducting its affairs in the same illegal manner in another mission. The first mission did not inform the second mission of the company's prior conduct. In another example, the Task Force made a strong adverse finding against a company. Notwithstanding this, two months after the Task Force report, the company was awarded a new multimillion-dollar contract. This situation occurred, seemingly, because of a lack of communication between departments within the Organization. A further example is that until early 2007, the Organization contracted a company which paid funds into a secret offshore bank account of a staff member who had been arrested on charges of money-laundering and fraud in August 2005.

72. Furthermore, there is a need for a vendor removal and suspension system which entitles the Organization, after due process, to publish its decision and in particular to inform other institutions such as the World Bank and the European Commission when adverse findings against a company are made. Equally, the Organization needs to act promptly in response to such received information. This would be beneficial in the fight against procurement fraud and corruption within the United Nations system and analogous institutions. Recently, the Inter-American Development Bank published on its website a list of barred companies. The Task Force suggests that this model should be closely studied as a possible way forward for the Organization.[118]

While UNDP's vetting procedures appear sound, UNDP would apparently benefit from increasing its information-sharing with other U.N. agencies. For example, UNDP was reportedly found to have hired a vendor that had been blacklisted by the Secretariat for attempted bribery of a U.N. official.[119] The episode demonstrates the need for continued improvement of vendor vetting procedures. In light of the potential for damage to UNDP from making payments to entities involved in illicit conduct, this Report recommends that additional steps

---

[118] United Nations General Assembly, Report of the Office of Internal Oversight Services on the activities of the Procurement Task Force for the 18-month period ended 30 June 2007, U.N. Doc. A/62/272, October 5, 2007.

[119] George Russell, *U.N. Ignores Its Own Procurement Ban*, Foxnews.com, January 14, 2008, http://www.foxnews.com/story/0,2933,322470,00.html.

be taken to ensure that payments are not made to vendors associated with illicit activity.

VIII. CONCLUSION

By all accounts, operating development projects in North Korea presented management and administrative challenges of the most extreme nature. By definition, UNDP operates in challenging environments, and has crafted, for the most part, sound rules and procedures to ensure that UNDP development funds benefit the people of the host nation.

The matters addressed in this Report speak to a number of seemingly disparate issues – inappropriate staffing decisions, questionable use of foreign currency instead of local currency, inadequate fiscal controls, restricted program monitoring, financial deception, payments to a suspect entity, inaccessible audits, and insufficient whistleblower protections. Taken as a whole, however, the evidence indicates that the North Korean government took advantage of the altruism that drives UNDP programs.

This Report offers a number of recommendations to strengthen UNDP management, transparency, and accountability controls. The objective of these recommendations is to enable UNDP to continue its work under even the most difficult circumstances, while protecting UNDP programs and funds from manipulation and misuse.

* * *

United Nations Development Programme

About UNDP

More information

- Speeches & Statements
- Publications
- Goodwill Ambassadors
- Headquarters & Donor Liaison Office Information
- Videos of UNDP's Work

How we are organized

- Executive Board
- Kemal Derviş, UNDP Administrator
- Ad Melkert, UNDP Associate Administrator

How we do it

- Capacity Development
- Women's Empowerment
- Human Rights
- Human Development Reports and Statistics
- South-South Cooperation
- Evaluation

Search

GO

A world of development experience

UNDP is the UN's global development network, an organization advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. We are on the ground in 166 countries, working with them on their own solutions to global and national development challenges. As they develop local capacity, they draw on the people of UNDP and our wide range of partners.

World leaders have pledged to achieve the Millennium Development Goals, including the overarching goal of cutting poverty in half by 2015. UNDP's network links and coordinates global and national efforts to reach these Goals. Our focus is helping countries build and share solutions to the challenges of:

- Democratic Governance
- Poverty Reduction
- Crisis Prevention and Recovery
- Energy and Environment
- HIV/AIDS

UNDP helps developing countries attract and use aid effectively. In all our activities, we encourage the protection of human rights and the empowerment of women.

The annual Human Development Report, commissioned by UNDP, focuses the global debate on key development issues, providing new measurement tools, innovative analysis and often controversial policy proposals. The global Report's analytical

"The fact is that globalization the global market economy delivers to the upper half; it doesn't really deliver to the poor people. In some cities in the developing world, you have 50 percent of young people unemployed. So the challenge is huge and we have to focus on it.

"At the United Nations Development Programme, that's what we try to do. We try to find the right solutions, try to compare what worked in some places to what didn't work in other places, and build and bring capacity development to these countries...It is through democratic institutions, through participation, through people getting organized in democratic ways [that is] at the heart of the challenge. You have to have these institutions to accompany market development, to accompany what's happening in the technological and financial sphere, so that we indeed have a much more equitable and balanced human society."

- Kemal Derviş, UNDP Administrator

Permanent Subcommittee on Investigations
UNDP Report - FN 2

framework and inclusive approach carry over into regional, national and local Human Development Reports, also supported by UNDP.

In each country office, the UNDP Resident Representative normally also serves as the Resident Coordinator of development activities for the United Nations system as a whole. Through such coordination, UNDP seeks to ensure the most effective use of UN and international aid resources.

^ Back to top

Frequently Asked Questions · Contact Us · Work for UNDP · Copyright & Terms of Use

United Nations Development Programme

Countries

UNDP Country Offices and other Programmes

A B C D E F G H I J K L M N P R S T U V Y Z | List of donor countries

A

Afghanistan
Albania
Algeria
Angola
Argentina
Armenia
Azerbaijan

B

Bahrain
Bangladesh
Barbados
Belarus
Benin
Bhutan
Bolivia
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria
Burkina Faso
Burundi

C

Cambodia
Cameroon
Canada (bilateral partner)
Cape Verde
Central African Republic
Chad
Chile
China
Colombia
Comoros
Costa Rica

M

Macedonia FYR
Madagascar
Maldives
Mali
Malawi
Malaysia
Mauritania
Mauritius
Mexico
Moldova
Mongolia
Montenegro
Morocco
Mozambique
Myanmar

N

Namibia
Nepal
Netherlands (bilateral partner)
Nicaragua
Niger
Nigeria
North Korea
Norway (Nordic Office)

P

Pakistan
Palestinian Programme
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Poland

Permanent Subcommittee on Investigations
UNDP Report - FN 3

Congo (Democratic Republic of)
Congo (Republic of)
Côte d'Ivoire
Croatia
Cuba
Cyprus

D

Denmark (Nordic Office)
Djibouti
Dominican Republic

E

Ecuador
Egypt
El Salvador
Equatorial Guinea
Eritrea
Ethiopia

F

Fiji
France (bilateral partner)

G

Gabon
Gambia
Georgia
Ghana
Guatemala
Guinea
Guinea Bissau
Guyana

H

Haiti
Honduras

I

India
Indonesia
Iran
Iraq

J

R

Romania
Russian Federation
Rwanda

S

Samoa
Sao Tome and Principe
Saudi Arabia
Senegal
Serbia
Seychelles
Sierra Leone
Slovak Republic
Somalia
South Africa
Sri Lanka
Sudan
Swaziland
Sweden (Nordic Office)
Sudan
Syria

T

Tajikistan
Tanzania
Thailand
Timor-Leste
Togo
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan

U

Uganda
Ukraine
United Arab Emirates
United States (partner)
Uruguay
Uzbekistan

V

Venezuela
Viet Nam

Jamaica
Japan Liaison Office
Jordan

K

Kazakhstan
Kenya
Korea (Republic of)
UN administered province of Kosovo
Kuwait
Kyrgyzstan

L

Laos
Lebanon
Lesotho
Liberia
Libya
Lithuania

Y

Yemen

Z

Zambia
Zimbabwe

^ Back to top

Frequently Asked Questions · Contact Us · Work for UNDP · Copyright & Terms of Use

EXCERPT
UNDP
Making Globalization Work for All
UNITED NATIONS DEVELOPMENT PROGRAMME ANNUAL REPORT 2001
Permanent Subcommittee on Investigations
UNDP Report - FN 3

Contents

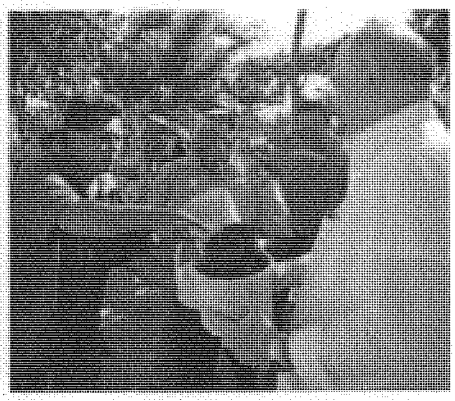
Chapter 1 Chapter 1 Chapter 1 Chapter
Chapter 2 Chapter 2 Chapter 2 Chapter
Chapter 3 Chapter 3 Chapter 3 Chapter
Chapter 4 Chapter 4 Chapter 4 Chapter
Chapter 5 Chapter 5 Chapter 5 Chapter
Chapter 6 Chapter 6 Chapter 6 Chapter
Chapter 7 Chapter 7 Chapter 7 Chapter
Chapter 8 Chapter 8 Chapter 8 Chapter
Chapter 9 Chapter 9 Chapter 9 Chapter
Chapter 10 Chapter 10 Chapter 10 Chapter
Chapter 11 Chapter 11 Chapter 11 Chapter
Chapter 12 Chapter 12 Chapter 12 Chapter
Chapter 13 Chapter 13 Chapter 13 Chapter
Chapter 14 Chapter 14 Chapter 14 Chapter
Chapter 15 Chapter 15 Chapter 15 Chapter
Chapter 16 Chapter 16 Chapter 16 Chapter
Chapter 17 Chapter 17 Chapter 17 Chapter
Chapter 18 Chapter 18 Chapter 18 Chapter

Reform, Renewal and Results

As we review the activities of the UN Development Programme (UNDP) over the last year, it's clear we face a double challenge. First, there is the overall coherence and "delivering as one" agenda, which is critical for the entire UN development system. As chair of the UN Development Group, the UNDP Administrator has a special role, working together with UN colleagues, in moving forward with reform. As we put in place the measures needed to enhance the efficiency and effectiveness of the UN system at the country level, the idea is not to merge the various mandates or organizations, but rather to build on their skills and expertise so that the UN delivers in a more coherent way and is more effective in building the links between what happens at the country level with the global policy debate.

The second challenge we face relates to UNDP itself. UNDP is a key partner in building capacity for human development focused around four areas: poverty reduction, democratic governance, crisis prevention and recovery, and environment and energy. As set out in UNDP's Strategic Plan 2008-2011, we need to continue to deliver in these areas on the ground, providing knowledge, policy advice, advocacy and technical support to programme countries on the basis of accumulated good practice and our comparative advantage. It is important that while doing this, UNDP also gradually withdraws from sectoral and sub-sectoral activities that should be done by those with a specific mandate. Hence, far from perpetuating what can be perceived as a conflict of interest, a strategic and policy-orientated organization focused on our core mandate, and a Resident Coordinator system that embraces the whole UN system would be fully complementary and allow the UN to play its role as a leading development partner to countries. A renewed, well-managed and well-resourced UNDP—as recognized by the High-Level Panel on UN System-wide Coherence—would, therefore, be an indispensable support both to the Resident Coordinator system and to the UN development system as a whole.

UNDP's core strength lies in this dual role. For that reason, our work will increasingly be strategic, integrative and directed at addressing inter-sectoral linkages, focusing on our core mandate which is to work with developing countries in the process of capacity development aimed at building strong national institutions and a governance framework that accelerates development and benefits all citizens.



UNDP Administrator Kemal Derviş (right) meets with Victor Meno (left), the president of an indigenous peoples rights association, at a coffee plantation in Costa Rica.

At the mid-point towards the 2015 deadline for achieving the Millennium Development Goals (MDGs), UNDP has a crucial role to play in the UN development system in working with developing countries to support their efforts to tackle poverty and advance pro-poor, inclusive growth and human development for all.

Kemal Derviş
UNDP Administrator

Inclusive Globalization

The global economy has been especially strong in recent years, with average worldwide per capita income growing as rapidly as ever before. There have also been significant improvements in global health and other broad measures of well-being, including life expectancy.

> "Globalization has fundamentally altered the world economy, creating winners and losers. Reducing inequalities, both within and between countries, and building a more inclusive globalization is the most important development challenge of our time."
>
> —*Kemal Dervis, UNDP Administrator*

One group of developing countries, representing a large share of world population, has been at the forefront of global growth; their economies are growing faster than those of developed countries. These nations are accessing global markets for goods, capital and technology; they are trading more and more with each other as well as with rich nations. They are also starting to catch up with the wealthiest countries in terms of human development. Millions of their citizens are being lifted out of poverty every year, with life expectancy, child mortality and literacy converging on developed country levels.

Another group of developing countries—greater in number, if smaller in population—are being left behind, and are today further away economically from the richest countries than ever before. Some countries have also seen a sharp drop in life expectancy, in many cases as a result of HIV and AIDS. The poorer countries also tend to be the ones most vulnerable to the effects of climate change and least prepared to mitigate its impact.

The gap between rich and poor citizens, within both developed and developing nations, is also growing. The richest two percent of the world's adult population now owns more than half of global household wealth. The bottom half of adults own barely one percent. So the gains from global growth are being highly unequally distributed.

What does this imply for those at the bottom? In 2007, over a billion people had almost no income (the equivalent of a dollar a day or less for each). They typically spent more than half of what they did earn on food for their families, leaving even less for shelter, water, education and health care. Most of these people pooled their incomes through work that was insecure, underpaid and at times unsafe.

In the latter decades of the 20th century, there was a widely held view that a rising tide

of global economic integration would lift all boats. Some developing countries have indeed been lifted up and are now sailing ahead so fast that they are starting to catch up with developed countries. But many other poor nations have been left behind by the tide, and are not yet able to navigate global seas. A similar thing is happening within most countries: the benefits of growth are not reaching large parts of the population.

Addressing these inequalities is our era's most important development challenge, and underscores why inclusive development is central to the mission of the UN and UNDP. In cooperation with other UN agencies, UNDP draws together governments, international organizations, the private sector and civil society groups behind efforts to establish the public policies and institutions that nations need to reduce development disparities. UNDP is a trusted multilateral partner, working with 166 countries to help them build capacity for inclusive development and fulfill the promises of the global economy.

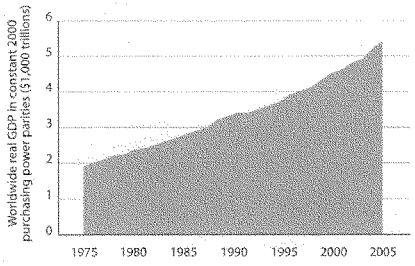
Why disparities matter

The reasons for addressing widening disparities among people have become startlingly clear, even beyond widely accepted notions of justice and human rights. For one thing, the wider the gaps grow, the more difficult they become to close. Ample evidence suggests, for example, that high levels of inequity reduce the rate at which even rapid economic growth translates into poverty reduction. By one estimate, it now takes three times as much economic growth to achieve the same rate of poverty reduction observed before 1990 in a typical middle-income country.

Disparities also introduce inefficiencies in economic systems, depriving national and global economies of the full range of benefits from economic integration. People can't tap investments in education and skills, for example. Governments can't draw upon the tax and other revenues that come from productive populations. And should a farmer cut down the trees in a rainforest simply because he has no other means of livelihood, the long-term contribution to climate change will be felt in that country and beyond.

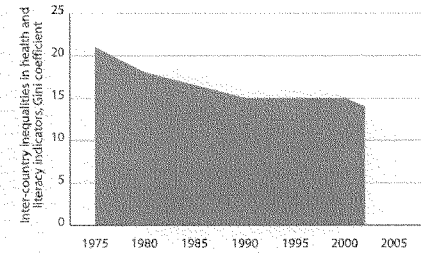
A mixed picture of global progress

Economies are growing...



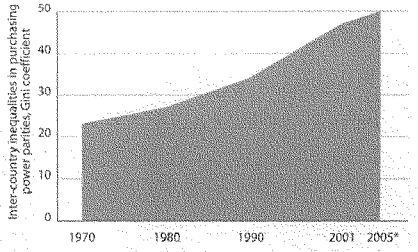
Source: The World Bank, *World Development Indicators 2006*

Human development gaps are shrinking...



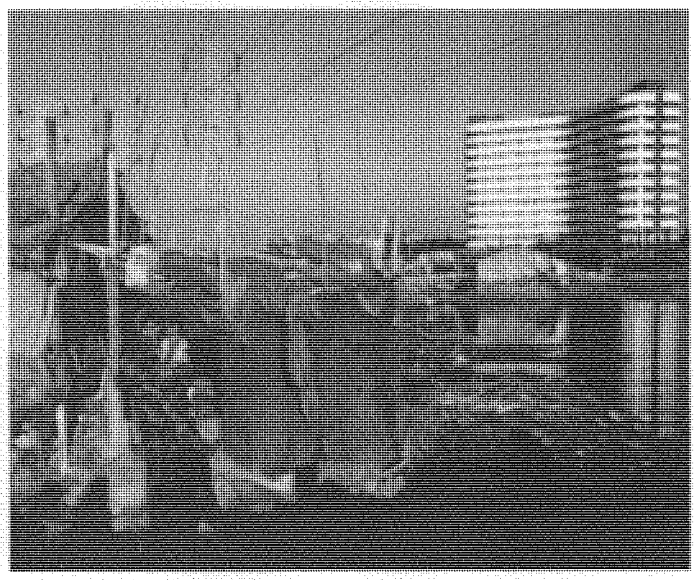
Source: UNDP calculations based on The World Bank and UNDP data

But economic inequalities are widening.



*Figures for 2005 based on a different dataset than ratios for previous years

Source: Angus Maddison, *The World Economy: Historical Statistics 2003*; The World Bank, *World Development Indicators 2006*



In Mumbai, India, a poor woman's home and a gleaming new building demonstrate the increasingly stark contrast between the lives of the rich and poor.

One of the most important global disparities relates to the lack of decent work available and low incomes. According to the International Labour Organization (ILO), about 200 million people don't have any form of work. Many millions more, including some who are reasonably educated, face inadequate employment. The boom in the global economy has not strongly been translated into decent new jobs: for every percentage point of global growth, formal sector employment has risen only by 0.3 percent.

Another priority is women's empowerment and women's rights. Discrimination against women is a fault line running through every society in the world today, varying only by degree. Women are consistently paid less than men, have a weaker political voice, often have access to fewer educational opportunities, and generally benefit least from the use of natural resources. While 200 million women entered the global workforce in the decade before 2003, 60 percent of the one billion poorest people are women. Women perform 60 percent of under-protected and underpaid informal jobs, despite lower overall employment rates.

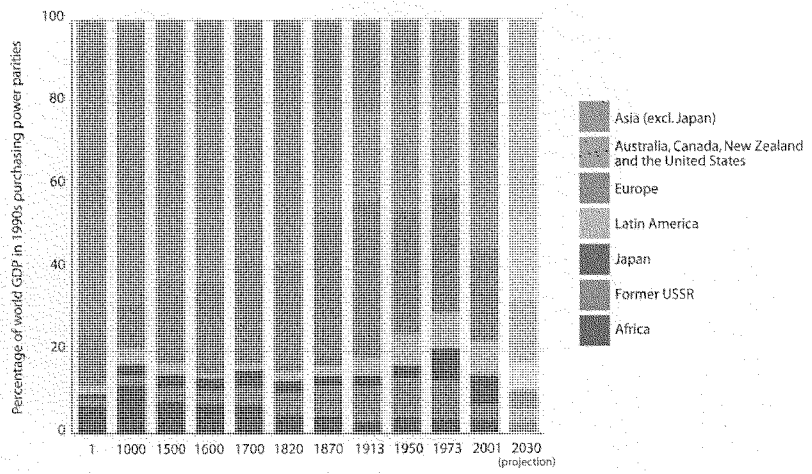
Today's disparities are also closely linked to the human impact on the environment. It is the poor who frequently end up with poor quality land, water, fuel and other natural resources, which in turn limit their productivity. In trying to make a living, they may further degrade their immediate environment, leading to a vicious cycle. On the other side are the wealthiest people and countries, who are the greatest consumers of natural resources, and also have much greater power to shelter themselves from environmental impacts such as pollution, scarcity and climate change.

What we need to do

Fulfilling the promises of an integrated and more secure world requires the political will—and concerted national and international action—to reduce these disparities. This is not primarily about charity, but about helping people develop capacities and

Asia on the rise

Until 200 years ago, Asia was the dominant world economic power. Today, rapid economic growth rates are helping the region regain its former position, although development progress varies widely among and within countries in Asia.



Source: Angus Maddison, *The World Economy: Historical Statistics 2003*

opportunities to improve their own lives and communities in a lasting way.

There is no single recipe for success: each country needs to identify priorities and solutions appropriate to the national context. But there are some basic ingredients. Nations need institutions capable of providing sound economic governance. Democratic participation can ensure that economic decision-making and other public policies take into account the realities of people's lives at all levels of society (not just the rich and powerful). The international community can assist national efforts (including through South-South cooperation) and promote inclusive trends in global trade and investment.

The UN system, grounded in the universal values inscribed in the UN Charter, supports collective efforts in nearly every developing country. UN research, drawing on data and analysis from around the world, can define problems and identify opportunities. UN advocacy and coordination can bring people and institutions together to solve them. Collectively, the different arms of the system have supported countries at all stages of development, from middle-income states to the least developed countries (LDCs), and across all the major sectors, from agriculture and environment to health, education and employment.

UNDP helps integrate and coordinate UN resources so that they are readily accessible, while offering its own programmes in areas where it has recognized expertise. As a trusted development partner, UNDP works towards a world where peace and prosperity are not restricted to a few but available to all. ■

UNDP Resources

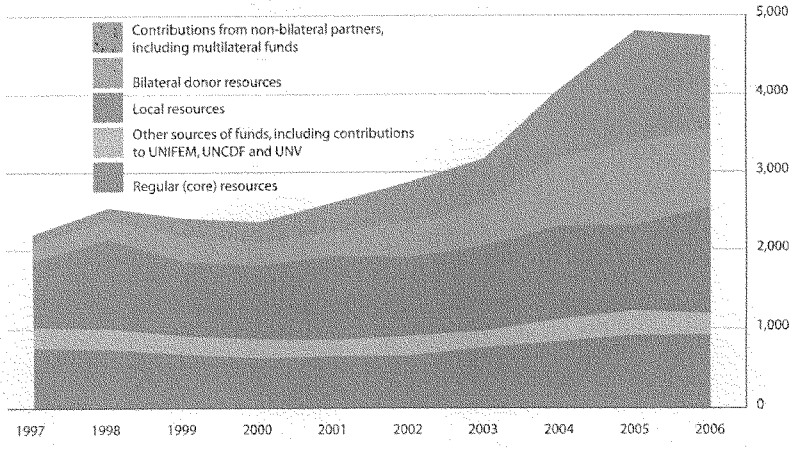
Contributions to the organization's regular (core) resources grew for the sixth consecutive year, albeit at slower pace. The $922 million gross regular income received by UNDP in 2006 represents a modest increase over 2005, but clearly falls short of the interim target ($1 billion) set by the Multi-Year Funding Framework (MYFF 2004-2007) for the year. The achievement of the overall MYFF funding target—$1.1 billion in 2007—will require continued and enhanced support during the final year of the current cycle. It is encouraging that a growing number of donor governments have adhered to multi-year funding commitments, thus helping to increase the predictability of UNDP's regular funding base.

Expressed in current dollar terms, core income has increased by 10 percent between 2004 and 2007. Yet when corrected for both inflation and the performance of the US dollar *vis-à-vis* other currencies, adjusted core income grew by less than 5 percent during this period. UNDP's funding base remains particularly exposed to exchange rate volatility.

In 2006, combined earmarked (non-core) contributions to UNDP totaled $3.8 billion, remaining at the same level as in 2005. Between 2005 and 2006, resources channeled through UNDP by programme country governments in support of their own development priorities grew from $1.1 billion to $1.36 billion. During the same period, non-core contributions from members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development decreased slightly from $1.05 billion to $1.03 billion. Contributions

Contributions to UNDP, 1997-2006 (preliminary)

US$ millions



Source: Division for Resources Mobilization/UNDP

Gross income received in 2006* (preliminary)
Ranked by top contributors to regular resources**
US$ millions

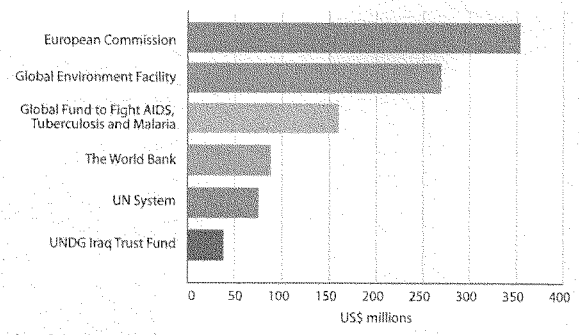
Donors	Regular resources	Co-financing
The Netherlands	113.8	58.3
Sweden	109.0	116.9
Norway	108.0	79.2
United States	105.2	127.8
United Kingdom	91.0	199.7
Japan	75.0	154.0
Denmark	61.3	19.1
Canada	49.6	65.9
Switzerland	41.6	15.2
Germany	33.6	31.5
France	31.1	21.1
Spain	28.6***	32.9
Ireland	20.0	11.8
Finland	18.7	10.3
Belgium	17.9	24.5
New Zealand	5.5	5.3
Austria	5.3	6.0
Australia	5.3	28.9
India	5.0	1.0
China	3.0	23.3
Saudi Arabia	2.0	10.4
Portugal	1.8	1.7
Luxembourg	1.7	3.9
Republic of Korea	1.0	4.7
Mexico	1.0	6.5

* As of 25 May 2007
** All donors to regular resources contributing $1 million or more
*** Includes € 15 million for 2006, received in January 2007

from non-bilateral partners declined from $1.43 billion to $1.2 billion. Notwithstanding a combined net decrease in non-core funding, UNDP continues to be called upon to support governments to obtain, direct and manage different types of funding in accordance with national priorities.

Earmarked resources represent an important complement to the regular resource base of UNDP. The ratio of earmarked to non-earmarked regular resources remains imbalanced, however. The ability of UNDP to fulfil its mandate and deliver effective capacity building support for development critically depends upon a level of core funding that enables UNDP to pursue flexible, integrated management approaches focussed on long-term development effectiveness and sustainability. ■

UNDP support to non-bilateral aid delivery: Top contributors to "other resources"



Source: Division for Resources Mobilization/UNDP

Report on US Contributions to the United Nations System

Prepared by the Office of Management and Budget

For the Chairman of the Subcommittee on Federal Financial Management, Government Information, and International Security

July 31, 2006

Permanent Subcommittee on Investigations
UNDP Report - FN 6

Data Collection Methodology

To collect the data contained in the attachment, on June 19th OMB sent a Budget Data Request through OMB Resource Management Offices (RMOs) to all federal government agencies. The data request included a list of agency contacts provided by the Department of State, and RMOs were instructed to contact agencies even if they were not listed with a point of contact. OMB gathered the data using criteria stated in Congressional correspondence.

The data request required agencies to submit information on all contributions (financial, in-kind, or otherwise) to the United Nations system from Fiscal Year 2001 through Fiscal Year 2005, and identify the activity funded by the contribution.

The request included a comprehensive list of organizations that are considered part of the United Nations system. For the purposes of the request the "United Nations system" was defined as all agencies, departments, organizations, funds, etc. that fly the UN flag or use the UN logo or are otherwise associated with the UN.

The request also required that agencies identify contributions that were passed through another entity but ultimately were used for UN projects or programs. If the US contribution was passed on to another UN-affiliated organization, then it was noted in the response and the program that ultimately received the funding was identified. The report attempts to make clear the contributing organization and the final destination within the UN system.

Agencies were provided with three templates to use in their response. The templates consisted of three contribution categories as noted above – financial, in-kind, and other.

In many cases, agencies went to multiple field offices and services to provide the necessary programmatic detail. This process, while time consuming, ensured a higher level of reliability and detail in the response.

The report provides a summary by agency with a government-wide total. Detailed information is then organized by department or agency, each with a subtotal. Each agency reported for all organizations under its purview. For example, the Department of Agriculture section includes contributions to the UN from the Foreign Agricultural Service, the Food Safety and Inspection Service, and the Agricultural Research Service. Other small agencies are grouped together at the end of the report.

US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Department of Agriculture	747,319	341,937	122,096	29,139	55,824
Department of Commerce	1,005	1,492	1,707	1,494	1,971
Department of Defense	65,016	73,918	25,916	19,826	11,708
Department of Energy	-	4,763	4,611	6,572	2,613
Department of Homeland Security	-	-	-	33	133
Deparment of Interior	255	649	816	726	672
Department of Justice	-	279	134	210	282
Department of Labor	118,800	112,868	108,357	98,930	81,217
Department of State and Other International Programs	2,228,265	3,362,673	3,544,914	3,923,516	5,139,721
Department of Transportation	-	-	50	-	-
Department of Treasury	4,989	20,000	14,906	14,916	14,880
Environmental Protection Agency	17,061	15,785	16,611	18,388	16,817
National Aeronautics and Space Administration	150	150	640	650	600
National Science Foundation	120	120	227	575	495
Other Organizations	186	180	340	180	343
Total	**3,183,166**	**3,934,814**	**3,841,323**	**4,115,155**	**5,327,276**

Department of Agriculture
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
USDA - Animal and Plant Health Inspection Service	US Mission to UN for Food and Agriculture (FODAG)						
	UN Food and Agriculture Organization (FAO)	USDA maintains an office in FODAG located in Rome, Italy and several USDA agencies share the cost to maintain that office.	46	46	53	50	61
		Tropical Bont Tick eradication/control program in the Caribbean and transfer funds to FAO to administer much of the administration of that program.	302	305	495	125	220
Foreign Agricultural Service	UN FAO	Associate Professional Officer	277	195	287	80	23
Food Safety and Inspection Service	UN FAO	Codex Trust Fund	-	-	168	85	158
In-Kind & Other Contributions							
Foreign Agricultural Service	World Food Program	Humanitarian assistance & school feeding	746,500	341,000	120,667	27,990	54,188
Agricultural Research Service-Nat'l Agric. Library	Food and Agriculture Organization						
	Food and Agriculture Organization	Support for the International Portal on Food Safety, Animal and Plant Health	-	-	-	43	-
		Travel to Brussels and Rome	3	-	-	-	-
Natural Resources Conservation Service	UN Convention to Combat Desertification	Tri Lateral Cooperation Papers	-	-	-	-	21
Foreign Agricultural Service	UN FAO	Public Service Leader Scholars	-	-	5	9	11

Department of Agriculture
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Food Safety and Inspection Service	UN FAO						
		TDY to the Codex Secretariat	-	-	-	-	192
USDA - Office of the Chief Economist	World Meteorological Organization (WMO)						
	World Meteorological Organization (WMO)	TDY of 1 staff person to WMO to help develop World Agrometeorological Information Service (WAMIS); 40% of time spent on activities not in direct support of OCE work are treated as "other" contribution to WMO.	-	11	40	27	-
		For WMO to plan and organize an international workshop in association with the Commission for Agricultural Meteorology to address impacts on agriculture and to prepare and publish proceedings for dissemination to USDA/OCE.	41	-	-	-	-
USDA - Natural Resources Conservation Service	UN Convention to Combat Desertification						
		Resource assessment and development	-	-	-	-	7
USDA - Foreign Agricultural Service	UN FAO						
		Contact Group for the Drafting of the Standard Material Transfer Agreement for the International Treaty for Plant Genetic Resources	-	-	-	-	714
USDA - Food Safety and Inspection Service							
	UN FAO	US hosted meeting for the Codex Committee Food Hygiene	150	150	200	340	230
	UN FAO	US hosted meeting for the Codex Committee Residues of Veterinary Drugs	-	140	180	210	-
	UN FAO	US hosted meeting Codex Committee Processed Fruits and Vegetables	-	90	-	180	-

Department of Agriculture
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Agriculture - Total			747,318	341,937	122,096	29,139	55,824

Note: USDA/CCC emergency food aid contributions (Bill Emerson Humanitarian Trust) are reported under State/USAID.

Department of Commerce
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
NOAA National Weather Service, Operations, Research and Facilities Account	World Meteorological Organization	Accelerating improvements in the accuracy of one day to two week high-impact weather forecasts for the benefit of society, the economy and the environment	150	150	150	150	150
NOAA Oceanic and Atmospheric Research, Operations, Research and Facilities Account	World Meteorological Organization / Global Atmospheric Watch	Joint Monitoring of Atmospheric Gases / Provide Standards Calibrations	200	225	250	275	325
	World Meteorological Organization / Global Atmospheric Watch	Montreal Protocol Inventories	50	50	50	50	50
	World Meteorological Organization / Global Atmospheric Watch	Joint Aerosol Monitoring and Assistance (China and South Africa)		65	65	75	100
	World Meteorological Organization	WMO Expert Panels	30	30	35	35	50
	World Meteorological Organization / Global Atmospheric Watch	Ozone Monitoring and Assessment	75	75	75	75	75
NOAA National Ocean Service, Operations, Research and Facilities Account	Intergovernmental Oceanographic Commission (IOC)	Global Ocean Observing System (GOOS) COASTAL MODULE	25	10	20	89	90
	Intergovernmental Oceanographic Commission (IOC)	Global Ocean Observing System (GOOS) PLANNING & IMPLEMENTATION- GENERAL	64	24	24	-	-
	Intergovernmental Oceanographic Commission (IOC)	Global Ocean Observing System (GOOS) CLIMATE MODULE- PLANNING & IMPLEMENTATION	223	472	262	588	394
	Intergovernmental Oceanographic Commission (IOC)	Global Ocean Observing System (GOOS) REGIONAL IMPLEMENTATION	3	54	40	112	83

Department of Commerce
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	Intergovernmental Oceanographic Commission (IOC)	LIVING MARINE RESOURCES	-	-	-	-	10
	Intergovernmental Oceanographic Commission (IOC)	CONTRIBUTIONS TO Global Climate Observing System (GCOS)	75	288	595	-	5
	Intergovernmental Oceanographic Commission (IOC)	OCEAN SCIENCE	-	49	86	-	-
	Intergovernmental Oceanographic Commission (IOC)	Ocean Mapping	10	-	-	-	-
	Intergovernmental Oceanographic Commission (IOC)	Global Forum on Coasts, Oceans, & Small Islands	-	-	10	-	25
	Intergovernmental Oceanographic Commission (IOC)	Partnership for Observation of the Global Oceans (POGO) Annual Dues	-	-	-	-	15
	Intergovernmental Oceanographic Commission (IOC)	9th Global Sea Level Observing System (GLOSS) Group of Experts Meeting, (Feb. 2005)	-	-	-	-	15
	Intergovernmental Oceanographic Commission (IOC)	Other support to the IOC	-	-	5	-	5
	UN Environment Programme - Caribbean Regional Coord. Unit	Socioeconomic Monitoring	-	-	-	25	-
	UNESCO Bangkok Office	Socioeconomic Monitoring	-	-	20	-	-
US Patent and Trademark Office	The United Nations Economic Commission for Europe.	To coordinate a Ukranian Seminar on Intellectual Property Rights Protection.	-	-	10	-	-
	The United Nations Economic Commission for Europe.	Consultative meeting with Romania (no funding)	-	-	-	-	-
	The United Nations Economic Commssion for Europe.	To co-sponsor an Intellectual Property Enforcement Seminar in Moscow,Russia on November 26-28,2002	-	-	-	-	-
	The United Nations Economic Commission for Europe.	UNECE Seminars Russia	-	-	-	-	60

Department of Commerce
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	The United Nations Economic Commission for Europe.	Symposium on the Internet and Intellectual Property Crime	100	-	-	-	-
	The United Nations Economic Commission for Europe.	Protection of Intellectual Property Rights for Investment (no dollars)	-	-	-	-	-
	World Intellectual Property Organization (WIPO)	Funds in Trust	-	-	-	-	500
In-Kind and Other Contributions							
National Institute of Standards and Technology	International Atomic Energy Agency	Government share of personnel benefits for NIST employee detailed to IAEA to produce new guidelines for quality assurance in Positive Electron Tomography/Computed Tomography (PET/CT)	-	-	10	20	20
Commerce - Total			1,005	1,492	1,707	1,494	1,971

Department of Defense
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
In-Kind Contributions							
Army							
Operation and Maintenance, Army	United Nations	UN Observers - 29 Officers	200	200	200	200	200
Military Personnel, Army	United Nations	UN Observers - 29 Officers	3,640	3,832	4,101	4,257	4,571
Department of the Navy							
Operation and Maintenance, Navy	United Nations	Operation Deliberate Forge: Transportation and support cost for personnel	-	-	9	3	-
Operation and Maintenance, Navy	United Nations	Operation Joint Forge: Transportation and support cost for personnel	-	-	149	166	28
Operation and Maintenance, Navy	United Nations	Operation Joint Guardian: Transportation and support cost for personnel	-	-	84	-	32
Operation and Maintenance, Navy	United Nations	U.N. Special Duty to Iraq: NCIS provided a Protective Service Operations Detail.	-	-	-	-	536
Air Force							
Operation and Maintenance, Air Force	U.N. Office of the Coordinator of Humanitarian Affairs	Humanitarian Assistance Bosnia-Herzegovina	30,482	48,535	13,446	9,531	3,093
United States Special Operations Command							
Operation and Maintenance, Defense Wide	United Nations	Operation Joint Forge: USSOCOM support to peacekeeping efforts in Sarajevo, Bosnia and Herzegovina.	17,373	7,091	3,448	1,349	1,240
Operation and Maintenance, Defense Wide	United Nations	Operation Joint Guardian: USSOCOM support to the NATO-led mission to implement and, if necessary, enforce compliance with the peace plan in Kosovo.	13,321	14,260	4,479	4,320	1,056
Operation and Maintenance, Defense Wide	United Nations	Indonesian Tsunami Relief: Direct USSOCOM costs associated the United States relief effort provided in the aftermath of the December 2005 Indonesian Tsunami.					952

Department of Defense
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Defense - Total			65,016	73,918	25,916	19,826	11,708

Department of Energy
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
Department of Energy	International Atomic Energy Agency (IAEA)	R&D to prevent the proliferation of Nuclear Materials	-	4,666	3,991	6,033	2,220
	Radiologic Dispers Devices-Russia US Costs/NN5008011						
Department of Energy	International Atomic Energy Agency	R&D to prevent the proliferation of Nuclear Materials	-	-	-	369	107
	Department of State - Safeguard/400801000						
Department of Energy	International Atomic Energy Agency	R&D to prevent the proliferation of Nuclear Materials	-	97	620	85	236
	IAEA Safeguards						
Department of Energy	International Atomic Energy Agency	Participate in ADSEC, an Advisory body to the IAEA Director General on issues relating to security of civilian nuclear facilities around the world.	-	-	-	10	25
Department of Energy	University for Peace	Report of the Working Group on Energy for the Democratic People's Republic of Korea	-	-	-	-	25
In-Kind and Other Contributions							
Department of Energy Nuclear Programs	IAEA	Professional development program	-	-	-	75	-
Energy - Total			-	4,763	4,611	6,572	2,613

400

Department of Homeland Security
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
US Coast Guard	United Nations Multi National Force MINUSTAH in Haiti (beginning 25 June 04)	One Coast Guard officer to serve as Coast Guard Liaison Staff Officer	-	-	-	33	133
Homeland Security - Total			-	-	-	33	133

Department of Interior
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
Fish and Wildlife Service International Affairs	Secretariat, Russian Federation National Committee for Man and the Biosphere Program (UNESCO)	Provided internet connectivity to facilitate U.S.-Russia cooperation in wildlife management	-	1	1	1	2
Resource Management - Division of International Conservation Wildlife Without Borders							
Fish and Wildlife Service International Affairs - 96200-3810	African Elephant Conservation Projects Convention on International Trade Monitoring Illegal Killing of Elephants (MIKE) programme	Supported the CITES MIKE programme to develop African elephant monitoring capacity at the site level by training field personnel in data gathering, statistical analysis, and relevance to elephant conservation in range states.	-	100	-	1	-
Fish and Wildlife Service International Affairs - 96200-8871	African Elephant Conservation Fund Convention on International Trade Monitoring Illegal Killing of Elephants (MIKE) programme	Continued support of the CITES MIKE programme to develop African elephant monitoring capacity at the site level by training field personnel in data gathering, statistical analysis, and relevance to elephant conservation in range states.	-	196	252	123	51
Fish and Wildlife Service International Affairs - 96200-8871	African Elephant Conservation Fund Convention on International Trade	Supported the 6th African Elephant Range States dialog meeting and provided delegate support to the 13th Annual CITES Conference of Parties in Bangkok, Thailand	-	-	-	100	-

Department of Interior
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Fish and Wildlife Service International Affairs - 96200-8872	Asian Elephant Conservation Fund	Continued support of the CITES MIKE programme to develop Asian elephant monitoring capacity at the site level by training field personnel in data gathering, statistical analysis, and relevance to elephant conservation in range states.	-	83	187	131	260
	Convention on International Trade						
	Monitoring Illegal Killing of Elephants (MIKE) programme						
Fish and Wildlife Service International Affairs - 96200-8873	Rhinoceros/Tiger Conservation Fund	Supported the CITES Tiger Enforcement Task Force through a two week course for two participants from each tiger range State to prepare enforcement personnel to combat poaching and illegal trade.	-	20	-	-	-
	Convention on International Trade						
US Forest Service - International Programs	UN Convention on International Trade in Endangered Species (CITES)	Technical support on forest species/mtgs.	-	-	10	3	-
	UN FAO	North American Forest Commission	10	10	99	6	13
	UN FAO	Forest Resource Assessment & Other Expert Mtgs		4	4	27	9
	UN FAO	Asia Pacific Forest Commission Invasive Species mtgs	40	30	50	70	60
	UN FAO	Staff person detail to FAO-Rome & Africa FC	-	-	-	30	-
	UN Framework Convention on Climate Change	LULUCF Informal Dialogue	-	-	-	-	10
	UN Forum on Forests	Country Led Initiative participation	5	5	13	32	17
	International Panel on Climate Change	IPCC expert participation	-	-	-	2	-
In-Kind & Other Contributions							
US Geological Survey/Earth Rescources Observation & Science	UN Environment Program Early Warning and Assessment	Office space					

Department of Interior
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	Regional Office of North America	IT services	200	200	200	200	250
	UNEP/GRID Office, Sioux Falls	Administrative staff support Remote sensing data products					
Interior - Total			255	649	816	726	672

Department of Justice
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
In-Kind & Other Contributions							
United States Marshals Service	United Nation General Assembly	Unreimbursed Salary and Benefits of Deputy U.S. Marshals on Security Details	-	279	134	210	282
Justice - Total			-	279	134	210	282

Department of Labor
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
Department of Labor							
Bureau of International Labor Affairs (ILAB) International Labor Organization	International Programme on the Elimination of Child Labor	Elimination of the Worst Forms of Child Labor	52,000	48,500	44,608	42,700	40,000
Bureau of International Labor Affairs (ILAB) United Nations Children's Fund	United Nations Children's Fund	Elimination of the Worst Forms of Child Labor	-	-	3,000	-	-
Bureau of International Labor Affairs (ILAB) International Labor Organization	ILO DECLARATION Programme	Protecting the Basic Rights of Workers	20,000	11,017	6,145	175	-
Bureau of International Labor Affairs (ILAB) International Labor Organization	ILO - Labor Market Information System	Employment Opportunity and Income Security	1,000	75	-	-	-
Bureau of International Labor Affairs (ILAB) International Labor Organization	ILO International Labor Standards	Protecting the Basic Rights of Workers	-	534	-	-	-
Bureau of International Labor Affairs (ILAB) International Labor Organization	ILO Social Protection	Protecting the Basic Rights of Workers	-	-	95	55	-
Bureau of International Labor Affairs (ILAB) International Labor Organization	ILO Skill and Employability	Employment Opportunity and Income Security	-	3,097	-	-	-
Bureau of International Labor Affairs (ILAB) International Labor Organization	ILO/AIDS	International HIV/AIDS Workplace Prevention Education	800	4,645	9,509	9,000	1,217
Bureau of International Labor Affairs (ILAB) International Labor Organization	ILO/International Programme on the Elimination of Child Labor	Programs to eliminate and prevent Child Labor	45,000	45,000	45,000	47,000	40,000

Department of Labor
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Labor - Total			118,800	112,868	108,357	98,930	81,217

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
Department of State							
Int'l Narcotics and Law Enforcement Affairs (INL) 19_1022	UN Crime International & Crime Prevention Center	Combating International Crime, illegal drugs & terrorism	350	-	100	753	-
	United Nations Drug Control Program	Combating illegal drugs	9,091	13,557	105	10,347	-
	United Nations Development Program	Humanitarian Assistance	60	-	-	5,100	-
	United Nations High Commissioner for Human Rights	Humanitarian Assistance	1,500	-	-	-	-
	United Nations Population Fund	Humanitarian Assistance	179	-	-	-	-
	United Nations Children Fund	Humanitarian Assistance	-	-	-	921	921
Office of the Legal Adviser 19_113	United Nations Conference on Conventional Weapons	Payment of US portion of assessed contribution	-	-	293	-	190
Bureau of International Security and Nonproliferation 19-11_1075	International Atomic Energy Agency	Nuclear Energy, Safety & Security	31,393	54,453	54,582	52,687	55,177
	UN Children's Fund	Humanitarian Assistance - Demining & Victims of Mines	1,300	-	-	112	-
	United Nations Development Program	Humanitarian Assistance	1,011	-	-	-	-
Bureau of International Organizations Affairs 19 _ 1005	Food and Agriculture Organization	Achieve Food Security	-	500	-	-	-
	Food and Agriculture Organization	Achieve Food Security	-	8,838	-	-	-
	International Civil Aviation Organization	Aviation Security, Safety	300	300	-	994	992
	International Maritime Organization	Marine Safety & Prevention of Marine pollution	-	370	-	-	99
	United Nations Fund for Montreal Protocol	Environmental Conservation - protect the stratospheric ozone layer	23,700	19,500	19,000	17,000	18,000
	Montreal Protocol Fund (Secretariat Common Costs)	Environmental Conservation - Administrative costs	-	-	-	600	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	Multilateral Force and Observers	Peacekeeping Operations	14,398	14,229	13,975	1,963	19,913
	UN Children's Fund	Child Health, Education & equality	109,758	-	119,220	119,292	124,000
	UN Convention to Combat Desertification (UNCCD)	Environmental Protection	-	1,700	1,550	1,550	1,429
	UN Development Fund for Women	women's empowerment and gender equality	900	1,750	980	970	970
	UN Development Program	Humanitarian Assistance	81,091	137,326	8,800	99,180	96,000
	UN Forum on Forests (UNFF)	Management, conservation and sustainable development of all types of forests	800	-	725	725	650
	United Nations High Commissioner for Human Rights	Humanitarian Assistance	-	-	-	-	2,485
	UN Fund for Technical Cooperation	Building of national and regional human rights infrastructures	980	1,334	1,225	1,231	1,488
	UN Voluntary Fund for Victims of Torture	Provide humanitarian assistance to victims of torture and members of their family.	5,000	5,000	9,500	5,468	6,944
	World Food Program	Humanitarian assistance - food aid to support economic and social development	5,000	6,000	-	-	-
	World Meteorological Organization	Environmental- meteorological, hydrological and other geophysical observations	-	-	3,000	-	802
	Basel Convention	Environmental Conservation - protect human health and the environment by minimizing hazardous waste production	-	-	-	125	-
	Biodiversity Convention	Environmental Conservation - Sustaining Life on Earth	-	-	-	175	-
	Cartegena Convention	Environmental Conservation - Protection and Development of the Marine Environment of the Wider Caribbean Region	-	-	-	450	-
	Intergovernmental Panel on Climate Change	Environmental Conservation - assess scientific, technical and socio- economic information relevant for the understanding of climate change	1,600	-	-	2,161	3,882
	UN Commission on Human Settlements	Humanitarian Assistance - promote socially and environmentally sustainable human settlements development and the achievement of adequate shelter for all	-	1,383	-	746	149
	UN Environment Program	Environmental Conservation -	9,725	10,625	-	5,910	-
	UN Environment Program Trust Funds	Environmental Conservation - to support the programs and work of UNEP	-	-	-	3,300	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	UN Framework for Convention on Climate Change	Environmental Conservation - Global Warming	4,875	-	-	3,366	-
	UN Institute for Training and Research	Humanitarian Assistance - training to sustain human development through international affairs management and capacity building in economic and social development.	-	-	-	50	-
	United Nations Office at Vienna	Administrative Support	-	-	-	175	-
	United Nations Office Coordinator for Human Affairs	Humanitarian Assistance	-	-	-	10,392	-
	Vienna Convention (Secretariat Common Costs)	Administrative Support	-	-	-	125	-
	International Contribution for Scientific, Educational & Scientific Activities		1,364	-	-	-	1,864
	UN Democracy Fund	Support emerging democracies with legal, technical and financial assistance and advice	-	-	-	-	10,000
	UNDP for Independent National Election Commission	Capacity building to put in place electoral rules and put in place systems, processes and procedures that will guarantee independent, fair, transparent and democratic elections.	-	-	-	-	650
	UNDP for Liberia Reconstruction Trust Fund	Support the rebuilding of Liberia's health, education and water infrastructure; technical assistance to bolster capacity building of government ministries, rehabilitation of office buildings, purchase of automobiles and office equipment.	-	-	-	-	15,000
	UNDP for Support to Electoral Process in The Central African Republic	put in place electoral rules and put in place systems, processes and procedures that will guarantee independent, fair, transparent and democratic elections.	-	-	-	-	249
Bureau of International Organizations Affairs 19 _ 1032	International Criminal Tribunal for Kosovo	Human Rights - prosecute war crimes in the former Yugoslavia	-	3,330	-	-	-
	UN Special Court to Sierra Leone	Human Rights - prosecute those who bear the greatest responsibility for serious violations of international humanitarian law and Sierra Leone law	-	-	-	5,000	-
Bureau of International Organizations Affairs 19 _ 1124							
UN Disengagement Observer Force	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	8,029	4,461	12,332	15,730	5,702

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
UN Force in Cyprus	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	5,619	2,790	7,107	9,400	3,861
UN Interim Force in Lebanon	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	18,733	53,654	28,122	19,444	-
UN Iraq/Kuwait Observer Mission	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	4,813	3,194	4,447	867	-
UN Mission in Bosnia and Herzegovina	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	18,847	29,409	23,450	-	-
UN Mission in Ethiopia/Eritrea	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	58,176	40,695	63,491	51,506	45,430
UN Mission in Kosovo	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	55,000	144,522	82,268	71,624	73,932
UN Mission to Liberia	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	-	-	207,429	312,973
UN Mission in Western Sahara	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	11,506	21,165	10,965	11,531	7,797
UN Mission to Sierra Leone	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	87,667	240,746	183,965	130,803	82,112
UN Observer Mission in Georgia	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	626	8,605	8,357	11,965	4,252
UN Operations in Angola	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	1,902	-	-	-	-
UN Operations in the Democratic Republic of Congo	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	29,240	149,002	170,869	139,305	284,593
UN Protection Force	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	-	3,015	-	-
UN Transitional Administration in East Timor	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	91,960	175,430	94,303	62,194	13,640
UN Mission in Sudan	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	-	-	-	131,945
UN Mission in Burundi	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	-	-	-	94,044
UN Mission in Cote d'Ivorie	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	-	-	-	141,889
UN Stabilization in Haiti	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	-	-	-	192,499

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
UN Operations in Somalia	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	80,716	-	-	-
UN Protection Force (Payment of Arrears under Helms Biden)	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	380,481	30,015	-	-
UN Logistics Base Interfund Strategic Deployment Stock	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	-	-	-	24,943	-
UN International Criminal Tribunal for Rwanda	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	10,767	11,961	14,432	18,322	18,312
UN International Criminal Tribunal in Former Yugoslavia	United Nations Department of Peacekeeping Operations	Payment of Peacekeeping Assessments	12,078	15,047	17,420	21,886	27,756
Bureau of International Organizations Affairs 19 _ 1126							
Food and Agriculture Organization	FAO	Payment of USG Portion of Assessed Budget	67,419	72,741	172,457	72,457	71,791
International Civil Aviation Organization	ICAO	Payment of USG Portion of Assessed Budget	12,145	11,985	12,436	12,583	12,625
International Atomic Energy Agency	IAEA	Payment of USG Portion of Assessed Budget	44,200	47,475	57,429	56,107	89,036
International Labor Organization	ILO	Payment of USG Portion of Assessed Budget	55,282	54,815	84,969	59,860	65,280
International Maritime Organization	IMO	Payment of USG Portion of Assessed Budget	1,066	1,007	1,111	1,274	1,388
International Telecommunication Union	ITU	Payment of USG Portion of Assessed Budget	5,814	5,696	8,291	3,878	7,494
Pan American Health Organization	PAHO	Payment of USG Portion of Assessed Budget	52,258	54,965	66,274	42,757	42,756
United Nations (FY 2002 includes 31,029 Turner Foundation)	UNITED NATIONS	Payment of USG Portion of Assessed Budget	282,204	298,033	245,137	316,607	362,209
Universal Postal Union	UPU	Payment of USG Portion of Assessed Budget	1,164	1,227	1,285	1,648	1,650
War Crimes Tribunal - Rwanda	UN TRIBUNALS	Payment of USG Portion of Assessed Budget	9,475	10,526	11,716	6,924	18,312
War Crimes Tribunal - Yugoslavia	UN TRIBUNALS	Payment of USG Portion of Assessed Budget	10,629	13,241	9,585	10,387	27,756
World Health Organization	WHO	Payment of USG Portion of Assessed Budget	108,109	108,028	123,681	93,615	98,110
World Intellectual Property Organization	WIPO	Payment of USG Portion of Assessed Budget	693	700	941	883	982
World Meteorological Organization	WMO	Payment of USG Portion of Assessed Budget	9,334	8,235	11,658	10,118	12,048

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
United Nations Education, Science & Cultural Organization	UNESCO	Payment of USG Portion of Assessed Budget	-	-	-	56,212	58,773
Office of International Conferences 19_113							
United Nations Memorial Cemetery Commission in Korea	UN Memorial Cemetery Commission	Tribute to all those who gave up their lives in resisting aggression in Korea and in upholding the cause of peace and freedom from 1950-53.	10	10	11	14	14
Bureau of Population, Refugees, and Migration 19_1143							
	UN Children's Fund	Humanitarian Assistance - Child Health, Education & equality	-	-	16,076	-	-
	Pan American Health Organization	Humanitarian Assistance - Human Health	-	-	-	-	550
	UN Development Program	Humanitarian Assistance	-	-	3,559	-	1,630
	UN Office of the Coordinator of Humanitarian Affairs	Humanitarian Assistance - international relief activities	8,055	14,424	1,890	1,001	332
	United Nations High Commissioner for Refugees	Humanitarian Assistance - co-ordinate international action to protect refugees and resolve refugee problems worldwide.	235,220	291,841	241,064	207,349	351,776
	United Nations Relief & Works Agency for Palestine Refugees in the Near East	Humanitarian Assistance - provide education, healthcare, social services and emergency aid to refugees in the Gaza Strip, the West Bank, Jordan, Lebanon and the Syrian Arab republic.	98,100	10,000	132,488	138,909	108,000
	United Nations World Food Program	Humanitarian Assistance - food aid to support economic and social development; meet refugee and other emergency food needs, and the associated logistics support; and promote world food security	9,850	-	-	11,535	7,350
	United Nations World Health Organization	Humanitarian Assistance - Attainment by all peoples the highest level of health	4,386	-	618	738	-
	UN Children's Fund	Humanitarian Assistance - Child Health, Education & equality.	7,605	-	-	10,607	7,240
	UN Population Fund	Humanitarian Assistance - promote the right of every woman, man and child to enjoy a life of health and equal opportunity	1,000	600	-	-	-
Department of State - Subtotal			**1,743,356**	**2,647,622**	**2,190,389**	**2,263,280**	**3,147,873**

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
U.S. Agency for International Development							
Africa							
Angola							
Development Assistance	International Organization for Migration	Survey of ex-combatants	-	100	-	-	-
	World Bank - IBRD/IFC	Assessment of the investment climate in Angola	-	-	-	-	50
Child Survival & Health	United Nations Development Program	Meterial development and training to improve quality of malaria services	-	-	-	-	100
Benin							
Child Survivial	United Nation's Children's Fund	Radio network for medical emergencies					
	United Nation's Children's Fund	Radio network for medical emergencies					
Development Assistance *grant signed in FY 06 – previously reported in FY 05	United Nation's Children's Fund	Anti-child trafficking program	-	-	-	-	600
Burundi							
Development Assistance (DA)	United Nations Development Program (UNDP)	To increase income generating activities primarily agriculture by introducing improved technology and practices in four provinces.	-	2,400	-	-	-
Child Survival, Health (CSH)	United Nations Development Program (UNDP)	To fund a portion of a demographic reproductive health survey dealing with refugees and displaced people.	-	100	-	-	-
Development Assistance (DA)	United Nations Development Program (UNDP)	To fund agricultural revitalization activities in the three provinces of Muyinga, Karuzi and Kirundo.	-	-	2,859	-	-
Child Survival, Health (CSH)	United Nations Children's Fund (UNICEF)	To reduce maternal mortality by training traditional birth attendants and increasing the number of women who receive prenatal care.	-	240	-	-	-
Child Survival, Health (CSH)	United Nations Children's Fund (UNICEF)	Program in Malaria control and Child Survival activities.	-	-	685	200	200
Democratic Republic of Congo							
No Contributions							
Djibouti							

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Economic Support Funds (ESF)	World Health Organization	Reduce impact of flood on public health.	-	-	200	-	-
Economic Support Funds (ESF)	United Nations Children's Fund (UNICEF)	To promote increase access, quality and gender equity through the provision of textbooks and teachers materials in the primary and lower secondary schools throughout Djibouti.	-	-	-	1,650	-
	World Health Organization (WHO)	To reduce impact of flood on public health.	-	-	-	182	-
	United Nations Children's Fund (UNICEF)	For Immunization Plus project to promote children's right to life and health.	-	-	-	688	-
	World Health Organization (WHO)	For Immunization Plus project to promote children's right to life and health.	-	-	-	225	-
Ethiopia							
Development Assistance (DA)	UN Development Program (UNDP)	Economic Development Program	-	100	-	-	-
	UN Educational, Scientific and Cultural Organization (UNESCO)	Education Program	-	600	-	-	-
	International Organization for Migration (IOM)	Humanitarian Assistance	-	182	-	-	-
	UN Development Program (UNDP)	Economic Development Program	-	-	50	-	-
	International Food Policy Research Institute (IFPRI)	Humanitarian Assistance	-	-	300	-	-
	UN Educational, Scientific and Cultural Organization (UNESCO)	Education Program	-	-	-	300	-
	International Organization for Migration (IOM)	Humanitarian Assistance	-	-	-	-	307
	UN Educational, Scientific and Cultural Organization (UNESCO)	Education Program	-	-	-	-	100
	UN Development Program (UNDP)	Democracy Program	-	-	-	-	100
	International Food Policy Research Institute (IFPRI)	Enhance Administrative Capacity	-	-	-	-	500
Child Survival and Health (CSH)	UN Children's Fund (UNICEF)	Youth Health Program	-	836	-	-	-
	UN Educational, Scientific and Cultural Organization (UNESCO)	Education Program	200	-	-	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	World Health Organization (WHO)	Youth Health Program	-	321	-	-	-
	World Health Organization (WHO)	Youth Health Program	-	225	-	-	-
	World Food Program (WFP)	Humanitarian Assistance	-	-	1,598	-	-
	UN Children's Fund (UNICEF)	Health Program	-	-	4,000	-	-
	UN Children's Fund (UNICEF)	Youth Health Program	-	-	1,000	-	-
	World Health Organization (WHO)	Health Program	-	-	1,539	-	-
	World Health Organization (WHO)	Health Program	-	-	-	-	400
	World Health Organization (WHO)	Health Program	-	-	-	-	70
Economic Support Fund (ESF)	UN Development Program (UNDP)	Humanitarian Assistance	-	-	-	50	-
	UN Development Program (UNDP)	Enhannce Administrative Capacity/Democracy	-	-	-	250	-
Development Fund for Africa (DFA)	UN Development Program (UNDP)	Economic Development Program	-	-	-	500	-
Global HIV/AIDS Initiative (GHAI)	World Health Organization (WHO)	Enhance Administrative Capacity	-	-	-	-	50
	UNICEF	Youth Health Program	-	-	-	-	34
Ghana							
Child Survival and Health Programs							
	United Nations Educational, Scientific and Cultural Organization (UNESCO)						
	Economic Community of West African States (ECOWAS)	Support ECOWAS AIDS Conference	9,240	-	-	-	-
	United Nations Children's Fund (UNICEF)	Vitamin A Distribution	240	-	-	-	-
	United Nations Children's Fund (UNICEF)	Cold Chain Procurement	-	999	-	-	-
Development Assistance							
	United Nations Development Programme (UNDP)	Capacity Building of Micro-Finance Institutions	-	1,000	-	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Child Survival and Health Programs							
	World Health Organization	Baseline study on blood safety	-	-	25	-	-
	United Nations AIDS (UNAIDS)	Furniture for UNAIDS Conference Room	-	-	-	9	
	United Nations Children's Fund (UNICEF)	Regional preparatory meetings, social mobilization and materials printing and supply	-	-	-	500	-
	United Nations Children's Fund (UNICEF)	Equipment for national polio immunization exercise	-	-	-	400	-
	United Nations Children's Fund (UNICEF)	Equipment for national polio immunization exercise	-	-	-	-	400,000
Development Assistance							
	International Food Policy Research Institute (IFPRI)	Development of a biodiversity system in Ghana	-	-	-	250	-
	International Food Policy Research Institute (IFPRI)	Implementation of Strategic Analysis and Knowledge Support Systems in Ghana	-	-	-	450	-
	International Food Policy Research Institute (IFPRI)	Implementation of Strategic Analysis and Knowledge Support Systems in Ghana	-	-	-	-	300
	International Food Policy Research Institute (IFPRI)	Development of a biodiversity system in Ghana	-	-	-	-	250
Guinea							
Child Survival and Disease							
	World Health Organization	Support to the Yellow Fever Immunization Campaign	50	-	-	-	-
	World Health Organization	Support to the Expanded Immunization Program	85	-	-	-	-
Development Assistance							
	World Food Program	Support to WFP's air services in Guinea and Sierra Leone	-	-	-	100	-
Kenya							
Child Survival Health Account							
	United Nations Children's Fund	To provide support for a program in Prevention and control of HIV/AIDS Within the context of maternal and Child health programs in North Eastern Province of Kenya	-	-	-	1,000	-
Office of Global Aids Coordinator (GHAI) Account							
	United Nations Children's Fund	——Program purpose as above——	-	-	-	-	250

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Child Survival Health Account	United Nations Children's Fund	To provide support for a program in Prevention of mother to child HIV Transmission.	-	-	-	500	-
Office of Global Aids Coordinator (GHAI) Account	United Nations Children's Fund	——Program purpose as above——	-	-	-	-	150
Office of Global Aids Coordinator (GHAI) Account	United Nations Office on Drugs and Crime (UNODC)	To provide support for a program in prevention of drug abuse and HIV/AIDS among drug abusers	-	-	-	500	-
Liberia							
Economic Support Fund ESF							
Economic Support Fund ESF	UNDP	Reintegration of ex-combatants	-	-	-	-	15,000
Madagascar							
No contributions							
Malawi							
Economic Support Fund ESF	United Nations Development Program (UNDP)	Supporting 2004 presidential elections	-	-	500	-	-
International Disaster Assistance	United Nations Children's Fund (UNICEF)	To strengthen nutrition information systems in Malawi	-	-	-	-	400
Mali							
Child Survival and Health Programs	United Nation's Children's Fund	To provide drugs for malaria	-	-	-	59	63
Child Survival and Health Programs	United Nation's Children's Fund	Education for Ivorian refugees Kids	-	-	30	-	-
Development Assistance	United Nation's Children's Fund	Education for Ivorian refugees Kids	-	-	16	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Development Assistance	Food and Agriculture Organization	Locust control activities	-	-	-	1,000	-
Mozambique							
ESF - PEPFAR	UN Organization - UNICEF	Mozambique national situational analysis concerning Other Vulnerable Children (OVCs)	-	-	-	498,140	-
Namibia							
Child Survival and Development (CSD)	United Nations Children's Fund	HIV/AIDS program for Youth	-	100	-	-	-
Child Survival and Health (CSH)	UNESCO	Pre-school program	-	-	-	50	-
	United Nations Children's Fund	HIV/AIDS youth adolescence prog.	-	-	-	100	-
Nigeria							
	UNICEF	Cold chain equipment	300	-	-	-	-
	WHO	HIV/AIDS Activities	-	-	-	887	-
	WHO	HIV/AIDS Activities	-	-	-	-	600
Rwanda							
No contributions							
Senegal							
DFA	UNICEF	Support for a program to contribute reducing physical and psychological trauma for the population affected by the conflict, in particular for displaced children in the Casamance region of Senegal.	236	-	-	-	-
DA			136	-	-	-	-
CSH			-	200	-	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
CSH DA		Support for a program to contribute at maintaining and improving the quality of the teaching and training, the rate of school attendance, and the rehabilitation of schools for the populations affected by the conflict in particular the displaced, children, and women.	305 94	100 -	- -	- -	- -
DFA	FAO	Emergency Assistance for Vegetable Production for Rural Households in Senegal and Mauritania Affected by Desert Locust	-	-	-	-	300
CSH	WHO	For support to WHO Roll Back Malaria coordination activities in Senegal. For Malaria activities of the National Malaria Steering Committee of Senegal, combined therapy and intermittent preventive treatment of Malaria in Senegal and Drug sensitivity testing carried out by Univesity of Dakar Department of Parasitology	-	-	-	-	200
Sierra Leone							
No Contributions							
Somalia							
Development Assistance (DA)	United Nations Development Program (UNDP)	Support to the War-torn Societies project in Somalia	250	250	705	-	-
	United Nations Development Program (UNDP)	Support to the Somalia Aid Coordination Body (SACB) Secretariat	50	100	100	100	100
	United Nations Children's Fund (UNICEF)	Support to the urban water resources development program in N. Somalia	750	115	517	-	-
Child Survival, Health (CSH)	United Nations Children's Fund (UNICEF)	Support to the urban water resources development program in N. Somalia	-	500	100	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	United Nations Development Program (UNDP)	Support to the rule of Law/Justice Systems improvement in Somalia	250	250	-	-	-
South Africa							
No Contributions							
Sudan							
No Contributions							
Tanzania							
No Contributions							
Uganda							
Development Assistance (DA)	World Bank	In kind support to the World Bank's Local Government Development Program	-	197	-	-	-
Zambia							
Development Assistance Fund (USAID)							
	World Food Program	Transportation of emergency food	-	50	-	-	-
Child Survival and Health Fund (USAID)							
	United Nations Foundation/United Nation's Children's Fund	Support for Child Protection - OVCs	-	250	-	-	-
Economic Support Fund (USAID)							
	United Nations Foundation/United Nation's Development Programme	Zambian 2006 elections support	-	-	-	-	200
* Funds are taken off the top of the Mission's yearly budget.	World Health Organization	Polio eradication	80	130	150	80	80
West Africa Regional							

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Development Assistance (DA)							
	United Nations Development Program	Support to the Youth Peace Development forum in the Mano River Union	-	-	-	62	-
	United Nations Development Program	Reintegration of ex-Rebels in Agadez Region	-	-	-	-	225
	UNODC	Support to UNODC to assess legal framework for anti-trafficking in ECOWAS states	-	-	87	-	-
	UNODC	Strengthening the capacity of anti-trafficking national taskforces in ECOWAS states	-	-	-	-	295
Central Africa Regional							
No Contributions							
Africa Regional							
Child Survival and Health (CSH)	World Health Organization/Africa Regional Office	Control of childhood diseases and development of disease surveillance	5,011	9,328	6,190	7,203	6,050
	World Health Organization/Africa Regional Office	Eradication of Polio	10,290	9,571	7,596	4,100	6,409
	UNICEF	HIV AIDS programs for children in Africa	215	220	230	275	200
Regional Center for Southern Africa							
Development Assistance (DA)							
	World Food Program	Monitoring System to capture information on informal food products trade.	-	-	-	-	79
REDSO/ESA							
No Contributions							
Asia and the Near East							
AFGHANISTAN							

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
BANGLADESH							
BURMA							
Cambodia							
Economic Support Fund							
	International Organization for Migration (IOM)	- Information campaign to combat trafficking in women and children - Psycho-social rehabilitation and materials support	-	1,089	250	181	308
	International Labor Organization (ILO)	- Better Factories: monitor factory conditions and educate workers to enhance work environment in the garment industry - Arbitration Council: resolve collective labor disputes	-	-	100	200	500
	WHO	- Malaria/Dengue homorrhagic fever control	-	-	-	50	-
Development Assistance							
	International Organization for Migration (IOM)	- Information campaign to combat trafficking in woment and children - Psycho-social rehabilitation and materials support	-	-	94	-	-
Child Survival and Health							
	WHO	- Malaria/Dengue homorrhagic fever control - Child Survival activties	-	500	750	1,447	800
EAST TIMOR							
EGYPT							
India							
Child Survival & Disease (CSD)							
	United Nations Children's Fund (UNICEF)	Polio Eradication	1,100	-	-	-	-
	World Health Organization (WHO)	Polio Eradication	2,700	-	-	-	-
	World Health Organization (WHO)	Tuberculosis Treatment	3,000	-	-	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Child Survival & Health (CSH)							
	United Nations Children's Fund (UNICEF)	Polio Eradication	-	1,500	1,400	1,425	1,713
	World Health Organization (WHO)	Polio Eradication	-	2,450	2,450	2,900	3,400
	World Health Organization (WHO)	Tuberculosis Treatment	-	4,000	2,445	4,600	5,800
	World Health Organization (WHO)	HIV/AIDS Prevention	-	-	200	-	-
	United Nations Children's Fund (UNICEF)	Child Survival	-	-	-	300	-
	United Nations Development Fund for Women (UNIFEM)	Trafficking in Persons	-	-	-	1,500	-
Development Assistance (DA)							
	United Nations Development Program (UNDP)	Disaster Management Preparedness	500	-	-	190	-
	United Nations Development Program (UNDP)	Water Infrastructure	-	-	-	-	200
	United Nations Development Fund for Women (UNIFEM)	Anti-Trafficking	-	1,400	-	-	100
Economic Support Fund (ESF)							
	United Nations Development Program (UNDP)	Disaster Management Preparedness	-	-	1,500	1,400	923
	United Nations Children's Fund (UNICEF)	Basic Education	-	-	1,000	1,500	2,000
Tsunami Supplemental (TS)							
	United Nations Development Program (UNDP)	Tsunami Recovery	-	-	-	-	3,500
International Disaster Assistance (IDA)							
	United Nations Development Program (UNDP)	Tsunami Relief	-	-	-	-	1,700
Indonesia							

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Child Survival and Health (CSH)							
	United Nation's Children's Fund (UNICEF)	Malaria Program in Eastern Indonesia	-	-	-	700	790
	United Nation's Children's Fund (UNICEF)	IODINE Deficiency Disorders/Universal Salt Iodization (Obligated $400,000 in FY99 and $450,000 in FY00)	-	-	300	-	300
	World Health Organization (WHO)	Expanded Program for Immunization (EPI)	-	1,500	-	-	-
	World Health Organization (WHO)	Polio Surveillance Program	486	600	500	600	700
	FAO	Avian Influenza Program (Tsunami supplemental funding that centrally funded to FAO)	-	-	-	-	1,500
Iraq							
Iraq Relief and Reconstruction Fund I	UNICEF	Provide basic health, water supply and sanitation services	-	-	37	-	-
International Development Assistance	UNICEF	Provide immediate support to basic education services through a rapid back to school campaign, rehabilitation of schools, ravision of curriculum, provision of teachers training and GIS mapping	-	-	1,000	-	-
Iraq Relief and Reconstruction Fund I	UNICEF	Provide immediate support to basic education services through a rapid back to school campaign, rehabilitation of schools, revision of curriculum, provision of teachers training and GIS mapping	-	-	6,000	-	-
Iraq Relief and Reconstruction Fund II	UNICEF	Provide immediate support to basic education services through a rapid back to school campaign, rehabilitation of schools, revision of curriculum, provision of teachers training and GIS mapping	-	-	-	12,600	-
Iraq Relief and Reconstruction Fund II	World Health Organization	Emergency immunization campaign for measles elimination, mumps and rubella control provide support for the provision of basic health	-	-	-	-	4,808
Child Survival and Health Program Funds	World Health Organization	Emergency immunization campaign for measles elimination, mumps and rubella control provide support for the provision of basic health	-	-	10,000	-	-
International Development Assistance	UNESCO	Provide immediate support to basic education service through textbooks editing, printing and distribution of	-	-	1,000	-	-
Iraq Relief and Reconstruction Fund I	UNESCO	Provide immediate support to basic education service through textbooks editing, printing and distribution of primary and secondary math and science textbooks.	-	-	9,000	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Iraq Relief and Reconstruction Fund I	World Bank	Provide contribution to the World Bank Trust fund for Social Safety Net & Pension Reform	-	-	5,000	-	-
Iraq Relief and Reconstruction Fund I	UNDP	Provide contribution to support the UNDP Trust fund for donor coordination	-	-	5,000	-	-
Jordan							
Economic Support Fund (ESF)							
	United Nation's Development Fund for Women (UNIFEM)	Improve the information technology skills of young women.	-	-	-	275	400
	United Nation's Development Programme	Capacity Building for the Secretariat function in Jordan's Lower House of Parliament.	-	-	N/A	N/A	100
	United Nation's Children's Fund	Youth unemployment project focuses on improving leadership, civic education, and employability skills for youth aged 10-18.	-	1,500	-	-	-
	United Nation's Development Programme	Support to Business Training for Micro and Samll Enterprenurs	22	-	-	-	-
LAOS							
LEBANON							
Mongolia							
Child Survival and Health	World Health Organization	research and development					
OFDA	FAO	Global influenza control and eradication	-	-	-	-	165
MOROCCO							
Nepal							
Child Health							
	United Nation Foundation/United Nations Children's Fund	Procurement DPT Vaccines	-	-	-	-	40
	World Health Organization	Measles control in Nepal	-	-	-	100	-
Development Assistance (DA)							

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	United Nations Development Program	Enhancing Women's Participation in Civil Service	-	-	-	120	-
	United Nations Development Program	Humanitarian Assistance Information System for Nepal	-	-	35	-	-
	United Nations Office of High Commissioner for Human Rights	Monitoring the situations of Human Rights in Nepal	-	-	-	-	700
International Disaster Assistance (IDFA)							
	United Nations Development Program	Humanitarian Assistance Information System for Nepal	-	-	35	-	-
Gift and Donations	United Nations Development Program	Capacity Building and Promotion of Human Rights	-	-	-	-	150
Pakistan							
	United Nations Children Fund (UNICEF)	Water & sanitation for Girls Primary School	-	-	-	-	250
	UN Educational, Scientific and Cultural Org.	Teacher Education Program	-	-	-	1,000	-
	United Nations Development Program (UNDP)	Devolution Trust for Community Empowerment	-	-	100	2,900	-
	Food & Agriculture Organization (FAO) of UN	Poverty Alleviation in Arid Agriculture	-	-	72	1,960	2,333
	United Nations Children Fund (UNICEF)	Nat'l Immunization Days for Polio Eradication in Pakis.	-	-	-	300	1,000
	World Health Organization (WHO)	Nat'l Immunization Days for Polio Surveillance in Pakis.	-	-	-	1,800	1,000
	World Health Organization (WHO)	Facilitate & Accelerate health program expansion in Pakistan	-	-	-	600	1,000
Philippines							
Child Survival and Disease Funds							
	World Health Organization	Support to establish National HIV/AIDS sentinel surveillance	246	-	-	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
International Disaster Assistance Funds							
	World Health Organization	Emergency disease surveillance and response for Philippine floods	-	-	-	-	25
RDMA/Thailand							
SRI LANKA							
VIETNAM							
W/BANK GAZA							
YEMEN							
Economic Support Fund	United Nations Development Program (UNDP)	Decentralization and Local Development Support Program	-	-	390	-	-
	United Nations Development Program (UNDP)	Decentralization and Local Development Support Program	-	-	1,200	-	-
	United Nations Development Program (UNDP)	Women and Decentralization	-	-	-	463	-
	United Nations Development Program (UNDP)	Decentralization - Local Councils Capacity Building	-	-	-	-	200
Latin America and the Carribean							
Bolivia							
Andean Counterdrug Initiative (ACI)	UNODC	Provide project management in conservation and utilization of forest resources in the Cochabamba Tropics and the Yungas of La Paz	5,185	2,464	4,750	-	-
	UNODC	Labor training and promotion of microenterprises in support of the strategy of coca eradication in the Cochabamba Tropics	430	300	600	-	-
	UNODC	Sustainable and integral management of the natural resources in the Tropics of Cochabamba and the Yungas of La Paz	-	-	-	148	1,000
	UNDP	Purchase of a security system for the Supreme Court building in Sucre, Bolivia.	-	-	-	-	78

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Chid Survival and Health (CSH)	PAHO	Malaria Research and Technical Assistance to the Ministry of Health	182	650	-	-	-
Devel.opment Assistance (DA)	UNDP / DA	Assistance in political party strategy development.	-	-	-	-	25
Brazil							
Child Survival and Health (CSH)	PAHO						380
	United Nations Education, Science and Culture Fund - UNESCO	Implement an exchange program between Brazilian and Mozambican youth to replicate best practices on AIDS prevention among youth, under USAID/Brazil's At-Risk Youth Program	-	100	-	-	-
	International Labor Orangization	Youth preparation for first employment, and bridges with private sector to ensure market insertion	-	-	40	-	-
Development Assistance (DA)	United Nations Development Program	Technical Assistance to develop the Global Village Energy Program (GVEP) / Brazil action Plan	-	-	-	250	-
	United Nations Development Program	1. Implement a M2M (Methane to Markets) activity in Brazil. 2. Implement 6 GVEP/Brazil action Plan demonstration projects	-	-	-	-	300
	International Labor Orangization	Prevent trafficking in children and adolescents for sexual exploitation purposes in selected Brazilian municipalities	-	-	354	-	-
	International Labor Orangization	Train law enforcement and prosecution agents to descrease impunity of TIP crimes	-	-	-	-	3,212
Colombia							
Andean Counternarcotics Initiative Fund (ACI)							
	UN Office for Drug Control and Crime Prevention (UNODCCP)	Local Governance strengthening	-	-	-	276	-
	International Organization for Migration (IOM)	Conflict Management and Peace Process	-	2,193	3,046	3,235	5,216
	UN Office for Drug Control and Prevention (UNDCP)	Fostering legal productive activities	-	304	686	1,224	1,421
	United Nations Childrens' Fund (UNICEF)	Assistance to Displaced Persons	-	1,700	1,050	-	-
	International Organization for Migration (IOM)	Assistance to Displaced Persons and related activities	-	8,542	9,965	11,186	11,713
	World Food Program (WFP)	Food Assistance to Displaced Persons	-	-	-	1,636	1,398
	United Nations High Commissioner for Refugees (UNHCR)	Economic and Social Opportunities for Displaced Persons	-	-	156	102	18

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	United Nations Office for Coordination of Humanitarian Affairs (UNOCHA)	Economic and Social Opportunities for Displaced Persons	-	-	-	-	270
Dominican Republic							
Child Survival and Health (CSH)	World Health Organization/Pan American Health Organization	Provide assistance to the Immunization Program	-	823	-	1,328	-
	World Bank/World Bank Institute	Assist in policy dialogue and defining private sector's role in public schools.	-	-	-	-	150
El Salvador							
Development Assistance (DA)	United Nation's Children Fund - UNICEF	Strengthen policy, institutional and operational framework of early childhood and pre-school education in El Salvador	-	1,039	-	-	-
Guatemala							
Economic Support Fund (ESF) United Nations Development Programme (SAAS, SAE)	Presidential Secretariats of Administration and Security (SAAS) and of Strategic Analysis (SAE)	To support the new Presidential Secretariats of Administration and Security (SAAS) and of Strategic Analysis (SAE) and provide them with technical assistance and training. These institutions eventually will replace the Estado Mayor Presidencial (EMP).	130	-	-	-	-
United Nations Development Programme	FLACSO (a local Guatemalan NGO)	To provide support to the formulation of public polices for redefining the relationships among civil society, the State, and the army through participation and investigation.	160	-	-	-	-
United Nations Development Programme (CS Pacto Fiscal)	Executive Secretariat of the Fiscal Pact Accompaniment Commission,	To provide support for the Executive Secretariat of the Fiscal Pact Accompaniment Commission.	100	50	-	-	-
United Nations Development Programme	National Statistic Institute (INE), Government of Guatemala (GoG)	To provide support for the development of an integrated system of household surveys.	200		-	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
United Nations Development Programme (FAFG)	Guatemalan Forensic Anthropological Foundation (FAFG)	To provide support to the Forensic Anthropological Foundation of Guatemala (FAFG) a local NGO engaged in exhumations and related mental health services	1,000	350	-	-	-
United Nations Development Programme	FAFG	Provide mental health services	-	826	-	-	-
Organization of American States (OAS)	Guatemalan Congress	Technical assistance for Congressional reforms related to the national identity document system.	-	-	1,050	-	-
International Organization for Migration (IOM)	GOG	Support for establishing an integrated citizen security policy in Guatemala	-	-	332	-	-
United Nations Development Program (UNDP)	GOG	To facilitate the implementation of activities in support of the Peace Process.	-	-	553	-	-
United Nations Foundation (UNF)	GOG	Support for establishing an integrated citizen security policy in Guatemala	-	-	150	-	-
United Nations Development Programme	FAFG	Exhumations during the period of September 2006 - 2007 to be carried out by FAFG and to provide mental health services to the affected families.	-	-	-	-	1,000
Organization of American States - OAS	GOG/ Supreme Electoral Tribunal (TSE)	Provide technical assistance for the Guatemalan election system through the TSE.	-	-	-	-	200
United Nations Office for Project Services (UNOPS)	International Organization for Migration (IOM)	Housing program for widows of victims of the armed conflict	-	-	600	-	-
Development Assistance (DA)							
United Nations Development Programme	Ministry of Health	To support the Guatemalan Ministry of Health to expand mental health services.	-	500	-	-	-
United Nations Development Program	FAFG	Support for victims of torture.	-	-	-	1,000	-
Guyana							
Development Assistance (DA)	United Nations Children's Fund	Support for relief operations in response to flooding in Guyana	-	-	-	60	-
Haiti							
Development Assistance (DA)							
	UNICEF	Trafficking of Haitian Children to the Dominican Republic	-	250	-	-	-
	UNICEF	School Health & Hygiene for Gonaives Children	-	-	503	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Economic Support Fund (ESF)	UNOPS	Technical Assistance for the Election Process.	-	-	-	-	4,325
Development Assistance (DA)	UNOPS	Rehabilitation of hydro electric plants.	-	-	-	-	4,100
Economic Support Fund	UNDP	Organization of Local, Legislative and Presidential Elections.	-	-	-	-	5,275
Huirricane Relief funds	UNDP	Emergency Preparedness & Disaster Mitigation Projects.	-	-	-	-	250
Economic Support Fund	UNDP	Emergency Preparedness & Disaster Mitigation Projects.	-	-	-	472	-
Economic Support Fund	UNDP	National Poverty Reduction Strategy Paper.	-	-	-	-	528
Honduras							
	International Organization for Migation	Housing projects for people displaced by Hurricane Mitch	1,394	182	95	87	-
	International Organization for Migation	Disaster prevention activities	-	-	-	86	-
Jamaica							
Development Assistance Fund	UNICEF	Primary Transitions Pilot Project:	-	-	-	230	-
		USAID/Jamaica partnered with UNICEF to implement a pilot project to improve the readiness level of children entering the grade 1 level of primary schools.					
Child Survival and Disease Funds	UNICEF	Primary Transitions Pilot Project	100	-	-	-	-
Mexico							
Child Survival and Health Account (CSH)	Pan American Health Organization	Support for Mexican national multiple drug resistant TB research and for operations research projects at the state and local levels in Mexico state and local levels in Mexico	-	-	-	-	1,241
PAHO-Mexico Research Collaboration project							
Peru							

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Child Survival and Health (CSH)	United Nations Children's Fund (UNICEF)	assistance for an activity to prevent malnutrition & micronutrient deficiencies	800	881	704	420	280
	United Nations Development Program	support to hand-washing initiative	-	-	-	120	-
	United Nations Children's Fund (UNICEF)	project aimed at reducing chronic malnutrition and iron deficiency anemia in children under age three	524	-	-	-	-
	United Nations Development Program	Support to Ministry of Education for implementation of Resource Centers for teachers in five regions	-	-	255	-	12
	United Nations Children's Fund (UNICEF)	Communication program for adolescents on reproductive health	75	-	-	-	-
Development Assistance (DA)	United Nations Development Program	manage the fourth Poverty Forum	88	20	-	-	-
Economic Support Fund (ESF)	United Nations Development Program	support of the operations of the Truth & Reconciliation Commission	-	1,500	200	-	-
Andean Conterdrug Initiative (ACI)	United Nations International Drug Control	assist Peru with communities agreeing to participate in the auto-eradication of coca	-	-	391	-	-
Latin America/Caribbean Health							
Child Survival and Health (CSH)	Pan American Health Organization	Vaccinations	964	500	727	-	-
		Integrated Management of Childhood Illness	752	450	243	-	-
		Maternal Mortality	530	500	542	-	-
		Infectious Diseases	628	449	678	768	897
		Amazon Malaria Initiative	1,382	1,644	1,265	1,605	1,600
		Health Systems/Health Sector Reform	660	300	350	600	525
		Health Information Systems	-	-	-	200	150
		South America Infectious Diseases Initiative	-	-	-	595	
		Maternal and Newborn Health	-	-	-	1,350	695
Latin America/Caribbean Democracy							

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Development Assistance (DA)	Pan American Health Organization	Municipal Violence Prevention	-	-	-	206	-
Caribbean Regional							
Development Assistance Fund (USAID)							
United Nations Development Program (UNDP)	Caribbean Regional Technical Assistance Centre (CARTAC)	Financial Sector Reform: This activity involved the provision of technical assistance to CARTAC to improve the tax administration system for the OECS region.	-	-	216	300	-
Europe and Eurasia							
Europe - Assistance for Eastern Europe nd the Baltic States (AEEB)							
Bosnia							
	UNICEF	Children in need	-	100	-	-	-
Bulgaria							
	UNDP	Early Warning System	20	-	154	-	-
	UNDP	Chitalishta Program - Community Development	300	700	-	-	-
Kosovo							
	UNDP	Early Warning System III	130	-	-	150	-
	UNICEF	Literacy Classes for Women	-	-	-	150	-
Macedonia							
	UNDP	Youth Employment Support Program	2,000	-	-	-	-
Romania (from Regional funds)							
	UNDP	Anti-Trafficking Manuals for the Region	500	-	-	-	-
Regional							
	UNICEF	To eliminate iodine deficiency disease (IDD)	231	119	400	450	300
	UN World Health Organization		-	-	347	65	-
	UN World Health Organization	Tuberculosis training	-	-	-	-	50
	UN World Health Organization	Regional Conference on Tuberculosis	-	-	-	-	60

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Economic Support Fund							
Cyprus							
	UNDP	BiCommunal Development	427	12,000	2,573	6,426	17,222
Eurasia - Assistance for the Independent State of the Former Soviet Union							
Armenia							
	WFP	WFP Flight	100	-	-	-	-
	UNDP	Consolidated Support to National Disaster Preparedness System	-	-	850	-	-
	UNDP	GDA: Integrated Community in Karakert Project	-	-	-	500	-
	UNDP	Support for Emergency Management Systems	-	-	-	-	200
Azerbaijan							
	UNDP	National mine action capacity	171	-	-	-	-
	WFP	Plane operations	50	-	-	-	-
	UNICEF	Primary Health Care	8	-	-	-	-
Belarus							
	WHO	Addressing the needs of HIV/AIDS Medical Professionals in Belarus Program	-	-	-	-	300
Georgia							
	UNDP	IDP Self-reliance fund	300	-	-	-	-
	FAO	Drought appeal	130	-	-	-	-
	WFP	Plane operations	100	-	-	-	-
	UNICEF	Vaccine & pharm security	370	-	-	-	-
	FAO	Drought Appeal	-	200	-	-	-
	UNICEF	Immunization and Vaccine Preventable Disease Control	-	-	302	234	324
Russia							
	WHO	TB Control	1,500	-	-	-	-
	WHO	TB Control	-	-	742	2,300	-
	UNICEF	Reprodutive Health Services for High Risk Youth	-	-	-	1,000	-
	WHO	TB Control	-	-	-	-	1,800
	UNICEF	Primary Health Care/Child Immunization in the North Caucasus	-	-	-	-	500
	UNICEF	Social Support Program in the North Caucasus	-	-	-	-	200
	UNICEF	Mine Risk Reduction Program in the North Caucasus	-	-	-	-	100

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Ukraine							
	UNDP	Agriculture Policy Project	-	526	-	-	-
	WHO	TB Program (USAID-funded WHO-umbrella grant as a USAID/W implementation mechanism)	-	750	-	-	-
	UNDP	Ag Policy Project	-	-	375	-	-
	WHO	TB Program	-	-	700	-	-
	WHO	TB Program	-	-	-	500	-
	WHO	TB Program	-	-	-	-	1,000
Central Asia Regional							
	UNDP	Stability and Food Security RFA in Tajikistan	510	-	-	-	-
	UNAIDS	HIV/AIDS actitivies in Turkmenistan	31	-	-	-	-
	UN ODCCP	Public Awareness Campaign Against Drug Abuse	-	3	-	-	-
	UNDP	Community Action Investment Program	-	1,000	-	-	-
	UNDP	Expanding and Enhancing HIV Prevention in Turkmenistan	-	104	-	-	-
	UNICEF	Causes of Child mortality in Lebap Velayat of Turkmenistan	-	100	-	-	-
	WHO	Tuberculosis Control in Central Asia	-	325	-	-	-
	WHO	Tuberculosis control in Central Asia	-	-	384	-	-
	WHO	Roll Back Malaria in Kyrgystan	-	-	831	-	-
	UNICEF	Causes of Child Mortality in Mary Velayat of Turkmenistan	-	-	5	-	-
	WHO	Roll Back Malaria in Kyrgystan and Tajikistan	-	-	-	152	-
	WHO	Tuberculosis Training & Translation of Key Documents	-	-	-	-	375
	UNICEF	Survey -- Kazakhstan only	-	-	-	-	66
	WHO	Tuberculosis Training & Translation of Key Documents in Kyrgyzstan only	-	-	-	-	57
	UNICEF	Survey -- Tajikistan only	-	-	-	-	30
Eurasia Regional							
	World Bank	To eliminate iodine deficiency disease (IDD)	-	100	-	-	-
	UNICEF	To eliminate iodine deficiency disease (IDD)	-	-	292	-	-
	WHO	ministerial TB conference	-	-	25	-	-
	WHO	Tuberculosis Training & Translation of Key Documents	-	-	-	50	-
	UNICEF	Eliminate IDD	-	-	-	700	-
	WHO	Tuberculosis Training & Translation of Key Documents	-	-	-	-	50
	WHO	Regional Ministerial conference on TB	-	-	-	-	60
	UNICEF	Eliminate IDD	-	-	-	-	700

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Bureau for Economic Growth, Agriculture and Trade (EGAT)							
Development Assistance (DA)							
	Academy for Educational Development (AED)	Analyze, synthesize, and disseminate lessons learned	-	1,250	-	-	-
	Collaborative Agricultural Biotechnology Initiative (CABIO)/African Agriculture Technology Foundation (AATF)	Assisting African small holder farmers by increasing private sector engagement	-	-	500	970	670
	Center for International Forestry Research (CIFOR)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	600	650	650	700	725
	Center for International Forestry Research-Natural Resource Management (CIFOR-NRM)	Contribute to food security and poverty eradication in developing countries through research	2,630	3,254	3,350	-	-
	Cities Alliance	Support to help cities improve the lives of slum dwellers and prevent new slums	-	-	250	250	250
	Collaborative Agricultural Biotechnology Initiative (CABIO) Public Biosafety Systems w/The International Service for National Agricultural Research (PBS/ISNAR) formerly ISNAR	Addressing the development & implementation of biotechnology regulatory systems to ensure the safety of bioengineered crops	-	-	5,514	2,667	2,000
	Consultative Group on Biodiversity (CGBD)	Support for biodiversity conservation and natural resource management initiatives	-	-	50	-	-
	Consultative Group to Assist the Poor (CGAP)	Provides global public goods to build the field through taining, action research, dissemination of donor guidelines and development of toolkits for donors and practitioners	-	-	800	-	-
	Food Security & Crisis Mitigation (FS&CM I)	Focusing on food security and crisis mitigation through agricultural research, training, and policy	3,250	11,745	9,742	-	-
	Food Security & Crisis Mitigation (FS&CM II)	Focusing on food security and crisis mitigation through agricultural research, training, and policy	-	-	-	11,678	12,668
	International Bank for Reconstruction and Development (IBRD)	Doing business reports; Public-Private Infrastructure Advisory Facility	-	-	250	1,000	274
	International Center for Agricultural Research in the Dry Areas (ICARDA)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	1,500	1,500	1,450	1,500	1,500

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	International Center for Research in Agroforestry (ICRAF)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	650	650	600	675	1,025
	International Center for the Living Aquatic Resources Management (ICLARM)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	675	675	675	725	800
	International Center for Tropical Agriculture (CIAT)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	2,200	2,250	2,100	2,125	2,100
	International Crops Research Institute for the Semi-arid Tropics (ICRISAT)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	2,175	2,175	2,000	1,975	1,975
	International Finance Corporation (IFC)	Privatization of Kenya Railways	-	150	-	250	-
	International Fertilizer Development Center (IFDC I)	Tech support thru USGS on World Food Summit & Hunger Alleviation	-	236	-	-	-
	International Fertilizer Development Center (IFDC II)	Tech support to the fertilization program	-	8,500	-	-	-
	International Food Policy Research Institute (IFPRI)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	1,675	1,675	1,500	1,575	1,600
	International Institute for Sustainable Development (IISD)	Global Climate Change (GCC) activities	250	100	-	-	-
	International Institute of Tropical Agriculture (IITA)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	3,200	3,350	3,200	3,100	3,100
	International Livestock Research Institute (ILRI)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	2,950	2,950	2,800	2,875	2,925
	International Maize & Wheat Improvement Center (CIMMYT)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	4,300	4,300	5,000	4,600	4,400
	International Natural Resource Management II (CGIAR-NRM II)	Contribute to food security and poverty eradication in developing countries through research	-	-	-	6,783	8,560

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	International Plant Genetic Research Institute (IPGRI)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	650	650	500	500	500
	International Potato Center (CIP)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	1,100	1,100	1,050	1,050	1,050
	International Rice Research Institute (IRRI)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	3,400	3,400	3,400	3,450	3,200
	International Service for National Agricultural Research (ISNAR)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	475	475	200	-	-
	International Trade Center	Services assessments; Investment Map; Training Services	-	500	250	50	284
	International Union for Conservation of Nature World Parks Congress	To support developing country participants at workshops and congressional proceedings	-	-	135	-	-
	International Union for Conservation of Nature/Natural Research (NRM)	Membership support	-	-	10	10	11
	CGIAR/International Water Management Institute (IWMI)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	875	875	1,000	1,075	825
	Organization of American States (OAS)	To support national, regional and hemispheric efforts in areasand issues of common interests	143	113	127	195	113
	Organization of Economic Coooperation and Development (OECD)	Analysis of adaptation to climate change	-	-	-	-	50
	United Nations Development Program (UNDP)	Database access	200	200	600	600	400
	United Nations Educational, Scientific & Cultural Organization (UNESCO)	Educational Initiatives	-	-	1,600	-	500
	United Nations World Trade Organization (UNWTO)	Provide advice and assistance to countries overcoming critical problems in implementation of WTO obligation	-	-	250	93	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	West Africa Research Development Association (WARDA)	Develop technologies & policies through multilateral agricultural and natural resource research that reduce hungers, increase incomes and conserve the environment	225	225	225	225	200
	World Bank (WB)	Partnership for improving business environments in USAID countries	-	-	-	-	24
	Biotechnology & Biodiversity Interface (BBI)/International Center for Insects and Pests (ICIPE)	Providing technical support through BBI to the center on genetically engineered crops	400	-	-	-	-
	Biotechnology & Biodiversity Interface (BBI)/International Rice Research Institute (IRRI)	Providing technical support through BBI to the center on Wild and Weedy Rice	300	-	-	-	-
Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA)							
Title II (CC-X)	World Food Program	Food Aid Worldwide	343,975	507,965	982,131	934,800	995,699
Bill Emerson Humanitarian Trust	World Food Program	Food Aid Worldwide	-	-	108,851	-	309,863
International Disaster and Famine Assistance	UNICEF	Disaster Responses	12,699	18,032	19,161	22,977	30,845
	UNOCHA	Disaster Responses	4,536	11,199	8,524	10,392	8,249
	UNDP	Disaster Responses	2,460	1,910	3,061	2,336	1,086
	UNFAO	Disaster Responses	5,062	8,838	6,343	6,398	19,666
	UNHABITAT	Disaster Responses	1,058	1,383	-	-	383
	UNWHO	Disaster Responses	652	1,743	800	1,850	2,166
	UNHCR	Disaster Responses	-	437	-	-	-
	UNWMO	Disaster Responses	-	450	419	300	212
Bureau for Global Health (GH)							
Child Survival Health Assistance							
United Nations Children's Fund/Africa		Support for immunization services and related child and maternal health activities.	2,346	3,200	36,300	2,455	2,454
Development Assistance							
National Institute of Allergy and Infectious	United Nations Children's Fund/Africa Diseases/National Institutes of Health	Secretariat support for the Global Alliance for Vaccines and Immunization (GAVI)	-	300	-	-	-

Department of State & Other International Programs
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Child Survival Health Assistance	United Nations Population Fund	Support for reproductive health programs.	250	-	-	-	-
Child Survival Health Assistance UNAIDS	Joint United Nations Program on HIV/AIDS	To provide support for a program in International HIV/AIDS prevention	17,050	18,400	17,890	26,250	-
Global AIDS Initiative UNAIDS	Joint United Nations Program on HIV/AIDS	To provide support for a program in International HIV/AIDS prevention	-	-	-	100	27,150
Child Survival Health Assistance	World Health Organization Department of Reproductive and Research	To improve family planning, safe motherhood and other areas of reproductive health, including reducing risk of HIV/AIDS and other STIs	3,000	2,700	5,450	2,600	2,625
USAID Subtotal			**484,909**	**715,051**	**1,354,525**	**1,660,236**	**1,991,848**
State / USAID - Total			**2,228,265**	**3,362,673**	**3,544,914**	**3,923,516**	**5,139,721**

Department of Transportation
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
Department of Transportation							
Federal Highway Administration/ Federal-Aid to Highways/1	World Health Organization (WHO)	Develop World Report on Road Traffic Injury Prevention	-	-	50	-	-
Transportation - Total			-	-	50	-	-

[1] *Funded through a reimbursable agreement with the National Highway Traffic Safety Administration (NHTSA) for distribution to WHO.*

Department of Treasury
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
U.S. Treasury Department							
150 Account Foreign Operations	International Fund for Agricultural Development (IFAD)	Development Assistance	4,989	20,000	14,906	14,916	14,880
Treasury - Total			**4,989**	**20,000**	**14,906**	**14,916**	**14,880**

Environmental Protection Agency
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
Environmental Management Program Appropriation							
World Health Organization	Pan American Health Organization	Programmatic Efforts: Improve drinking water quality in Latin America and the Caribbean	200	85	430	-	110
World Health Organization	World Health Organization Regional Office for Europe	Programmatic Efforts: Addressing the environmental burden of disease and injury in children.	-	-	-	25	-
United Nations Environment Program	UNEP Chemicals - division of Technology, Industry, and Economics	Programmatic Efforts: Conduct a global mercury assesment	93	-	255	70	-
United Nations Environment Program	Partnership for Clean Fuels and Vehicles	Programmatic Efforts: Reduce vehicular air pollution in developing countries.	-	-	100	190	30
Office of Air and Radiation							
Economic Commission for Europe		International Protocol for Monitoring Radioactively Contaminated Scrap Metal	-	-	-	-	185
International Atomic Energy Agency		Support for Technical Working Groups	16	15	14	13	13
World Health Organization 1/		International Workshop: Radon in Homes	-	-	-	40	40
United Nations Economic Commission for Europe	UNECE Long Range Transboundary Air Pollution Trust Fund		-	-	15	35	15
	Dept of State and UN Framework Convention	Provide technical assistance to developing countries on greenhouse gas reduction programs – Climate	5,700	5,900	6,200	6,900	6,400

Environmental Protection Agency
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
United Nations Environment Program	Currently, the U.S. and 188 other countries are Parties to the Montreal Protocol. The U.S. has repeatedly affirmed its commitment to this international treaty and to demonstrating world leadership by phasing out domestic production of ozone depleting substances (ODS), as well as helping other countries find suitable alternatives to ODS. Over the lifetime of the Montreal Protocol Multilateral Fund, 5000 projects have been funded in developing countries -- resulting in reductions of 170,000 tons of ozone-depleting substances, enabling developing countries to reduce ODS consumption by 70% from baseline. In 2005, the Fund approved 200 projects in developing countries.	Under the Montreal Protocol on Substances that Deplete the Ozone Layer, the U.S. and other developed countries contribute to the Multilateral Fund to support projects and activities that eliminate the production and use of ozone depleting substances (ODS) in developing countries.	10,976	9,576	9,514	10,935	9,920
Office of Water Environmental Management Program Appropriation							
Environmental Protection Agency/Office of Water Grant Number: 82811801-0 International Maritime Organization	International Maritime Organization	This is a technical assistance project to implement the London Convention 1972 and assists the International Maritime Organization with developing waste assessment guidance.	-	130	-	-	-
Environmental Protection Agency/Office of Water Grant Number: 83177201-1 International Maritime Organization	International Maritime Organization	This project assist the International Maritime Organization in hosting an international workshop with the purpose of developing waste assessment guidance and promoting global environmental programs.	-	-	-	95	-

Environmental Protection Agency
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Office of Pesticies, Prevention and Toxics							
UN Environment Programme, Division of Technology, Industry and Economics	Stockholm Convention	To support development of legislation to facilitate the US ratification of the Stockholm convention (signed by US in May 2001)	10	10	10	10	10
Office of the Administrator (OCIR)							
UN Environment Programme	Treaty on Persistent Organic Pollutants	EPA lead and supports the Administrations' efforts to pass legislation to protect human health and the environment	66	70	73	75	78
In-Kind and Other Contributions							
EPA Internship Program	EPA Internship Program	Comprehensive, entry-level, professional, full-time employment and career development program	-	-	-	-	16
EPA - Total			17,061	15,785	16,611	18,388	16,817

1/ These resources are apart of the National Center for Environmental Assessment (NCEA), ORD transfer under the "Protection of the Human Environment CR831028"

National Aeronautics and Space Administration
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
National Aeronautics and Space Administration							
Science, Aeronautics, and Technology / Science, Aeronautics, and Exploration	United Nations Environment Program, Division of Early Warning & Assessment (DEWA) - North America	The contribution was the annual provision of 3 contractor full time equivalent workyears to the DEWA, Global Resource Information Database (GRID).	150	150	150	150	-
National Aeronautics and Space Administration	IPCC working group 1 Intergovernmental Panel on Climate Change[1]	Climate science assessment	-	-	490	500	600
NASA - Total			**150**	**150**	**640**	**650**	**600**

1 This includes NASA's share (approximately 550%) of funds going to the UN from agencies participating in the Climate Change Science Program. Total funding for the program is: $820,000 in FY 2003, $898,000 in FY 2004, and $1 million in FY 2005.

National Science Foundation
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
National Science Foundation	UNESCO Institute for Statistics	Workshop Organization[1]	-	-	-	150	-
	IPCC Working Group 1 Intergovernmental Panel on Climate Change (IPCC)[2]	Climate science assessment	-	-	107	117	130
In-Kind & Other Contributions							
National Science Foundation	UNESCO	Professional Development[3]	-	-	-	-	140
National Science Foundation							
American Association For Advancement Science	UNESCO	Conference[4]	-	-	-	138	-
Oceanography Society	UNESCO	IOC Conference[5]	-	-	-	-	15
NOAA	UNESCO	IOC Support[6]	120	120	120	120	160
University of Arizona	UNESCO	Information Clearinghouse[7]	-	-	-	50	50
National Science Foundation - Total			**120**	**120**	**227**	**575**	**495**

[1] *The objective of the project is to explore the feasibility of developing a country's capability to survey higher qualified people, including recipients of doctorate level degrees. The primary purpose of the research is to establish an internationally coordinated survey of the careers of higher qualified people, building on the existing work currently conducted. An important element of this work is to measure the mobility of higher qualified people within a country but especially across borders. The interest in cross-border movement underscores the need for this survey to be internationally comparable.*

[2] *These amounts represent NSF's share (approximately 13%) of funds from all agencies participating in the Climate Change Science Program. Total funding for the program is: $820,000 in FY 2003, $898,000 in FY 2004, and $1 million in FY 2005.*

[3] *Staff Detailed to UNESCO Secretariat*

[4] *The proposed conference is aimed at developing an international dialogue on systemic educational reform. The dialogue will advance discovery and understanding of educational reform, while promoting teaching, training and learning. The initiative will be used to analyze and compare various learning models and pedagogic approaches to science and mathematics teaching, with the long-term aim of improving mathematics and science achievement at the K-12 level. The conference will develop new research strategies and partners at the national and international level, who will link the systemic reform efforts in the US in context with similar efforts around the world. The dialogue between UNESCO representatives and staff from education and science divisions and the US science and mathematics communities will be renewed and strengthened. Results of the conference will be published both in print form and on the AAS website. Alliances developed through the conference among university-based academics, policy-makers in development agencies and school-based science and meth educators will help bridge the gap between the research produced by development agencies and that produced for academic audiences.*

National Science Foundation
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005

[5] *The PI requests support for travel costs for approximately 13 U.S. scientists to participate in the 2005 International Ocean Research Conference, June 6-10, 2005, at the UNESCO Headquarters in Paris, France. The Oceanography Society is hosting this conference together with UNESCO/IOC to further its commitment to fostering and facilitating communication among scientists. The program co-chairs have planned a program that will span a broad range of topics in oceanography and will feature a combination of invited and contributed talks, as well as posters. Over 275 abstracts have been submitted to the conference committee for consideration. The goals of the conference are to reflect on how far oceanography has come and to help define the coming decade of international collaboration in science and education. Several conference sessions relate directly to current OCE Programs. Approximately 125 of the 275 abstracts have been submitted by non-U.S. scientists, creating a unique and timely opportunity for discussion and collaboration between U.S. and international scientists.*

[6] *The Intergovernmental Oceanographic Commission (IOC) of UNESCO coordinates and facilitates ocean research among governments. A total of 129 countries comprise the membership; the United States is a key participant and strong supporter of IOC activities. The IOC develops and promotes international research to improve global understanding of ocean processes and their relationship to the sustainable development and stewardship of ocean resources. This project constitutes the NSF portion of support to the Ocean Science Section of the IOC, including development of a new program on Multidisciplinary Science and Natural Resources and an international initiative to examine critical issues of land-almosphere-ocean biogeochemistry. These funds provide for a scientist on the staff of the IOC at a level of $120,000 per year, and beginning in 2005, a post-doctoral fellowship on ocean carbon programs at the IOC at $40,000 per year.*

[7] *Support for UNESCO's G-WADI information sharing and website as part of NSF's Science and Technology Center for Support of Sustainability of Water Resources in Semi-Arid Regions (SAHRA)*

Other Organizations
US Contributions to the United Nations System
($ obligations in thousands)

Contributing Bureau / Account	Final Recipient Organization	Description of Activity Funded	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Financial Contributions							
Inter-American Foundation	International Labour Organization (ILO)	Scholarship funds for persons from Latin America and the Caribbean to study local development via the Delnet internet course.	-	-	160	-	160
US Postal Service	Postal Union for the Americas, Spain, and Portugal (PUASP)	To enhance mailflow in the Region.	186	180	180	180	183
Other Organizations - Total			**186**	**180**	**340**	**180**	**343**

Sec. 307.[458] **Withholding of United States Proportionate Share for Certain Programs of International Organizations.**—(a) Notwithstanding any other provision of law, none of the funds authorized to be appropriated by this chapter shall be available for the United States proportionate share for programs for Burma, Iraq, North Korea, Syria,[459] Libya, Iran, Cuba, or the Pal-

[458] 22 U.S.C. 2227. Sec. 307 was added by sec. 403 of the International Security and Development Cooperation Act of 1985 (Public Law 99–83; 99 Stat. 219).

The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2003 (division E of Public Law 108–7; 117 Stat. 185 and 2155), provided:

"LIMITATION ON AVAILABILITY OF FUNDS FOR INTERNATIONAL ORGANIZATIONS AND PROGRAMS

"SEC. 516. Subject to the regular notification procedures of the Committees on Appropriations, funds appropriated under this Act or any previously enacted Act making appropriations for foreign operations, export financing, and related programs, which are returned or not made available for organizations and programs because of the implementation of section 307(a) of the Foreign Assistance Act of 1961, shall remain available for obligation until September 30, 2004.

* * * * * * *

"LIMITATION ON ASSISTANCE FOR THE PLO FOR THE WEST BANK AND GAZA

"SEC. 545. None of the funds appropriated by this Act may be obligated for assistance for the Palestine Liberation Organization for the West Bank and Gaza unless the President has exercised the authority under section 604(a) of the Middle East Peace Facilitation Act of 1995 (title VI of Public Law 104–107) or any other legislation to suspend or make inapplicable section 307 of the Foreign Assistance Act of 1961 and that suspension is still in effect: *Provided,* That if the President fails to make the certification under section 604(b)(2) of the Middle East Peace Facilitation Act of 1995 or to suspend the prohibition under other legislation, funds appropriated by this Act may not be obligated for assistance for the Palestine Liberation Organization for the West Bank and Gaza.".

Title I, chapter 3 of the Emergency Wartime Supplemental Appropriations Act, 2003 (Public Law 108–11; 117 Stat. 579), provided the following:

"SEC. 1503. The President may suspend the application of any provision of the Iraq Sanctions Act of 1990: *Provided,* That nothing in this section shall affect the applicability of the Iran-Iraq Arms Non-Proliferation Act of 1992 (Public Law 102–484), except that such Act shall not apply to humanitarian assistance and supplies: *Provided further,* That the President may make inapplicable with respect to Iraq section 620A of the Foreign Assistance Act of 1961 or any other provision of law that applies to countries that have supported terrorism: *Provided further,* That military equipment, as defined by title XVI, section 1608(1)(A) of Public Law 102–484, shall not be exported under the authority of this section: *Provided further,* That section 307 of the Foreign Assistance Act of 1961 shall not apply with respect to programs of international organizations for Iraq: *Provided further,* That provisions of law that direct the United States Government to vote against or oppose loans or other uses of funds, including for financial or technical assistance, in international financial institutions for Iraq shall not be construed as applying to Iraq: *Provided further,* That the President shall submit a notification 5 days prior to exercising any of the authorities described in this section to the Committee on Appropriations of each House of the Congress, the Committee on Foreign Relations of the Senate, and the Committee on International Relations of the House of Representatives: *Provided further,* That not more than 60 days after enactment of this Act and every 90 days thereafter the President shall submit a report to the Committee on Appropriations of each House of the Congress, the Committee on Foreign Relations of the Senate, and the Committee on International Relations of the House of Representatives containing a summary of all licenses approved for export to Iraq of any item on the Commerce Control List contained in the Export Administration Regulations, 15 CFR Part 774, Supplement 1, including identification of end users of such items: *Provided further,* That the authorities contained in this section shall expire on September 30, 2004, or on the date of enactment of a subsequent Act authorizing assistance for Iraq and that specifically amends, repeals or otherwise makes inapplicable the authorities of this section, whichever occurs first.".

[459] Sec. 431(a)(1) of the Foreign Relations Authorization Act, Fiscal Years 1994 and 1995 (Public Law 103–236; 108 Stat. 459) struck out "the South-West Africa People's Organization" and inserted "Burma, Iraq, North Korea, Syria".

Sec. 431(b) of Public Law 103–236 (108 Stat. 459) further provided the following:

"(b) UNITED NATIONS DEVELOPMENT PROGRAM.—

"(1) Except as provided in paragraphs (2) and (3), for fiscal years 1994 and 1995 none of the funds made available for United Nations Development Program or United Nations Development Program—Administered Funds shall be available for programs and activities in or for Burma.

"(2) Of the funds made available for United Nations Development Program and United Nations Development Program—Administered Funds for fiscal year 1994, $11,000,000 may be available only if the President certifies to the Congress that the United Nations Development Program's programs and activities in or for Burma promote the enjoyment of internationally guaranteed human rights in Burma and do not benefit the State Law and Order Restoration Council (SLORC) military regime.

estine Liberation Organization or for projects whose purpose is to provide benefits to the Palestine Liberation Organization or entities associated with it,[460] or at the discretion of the President, Communist countries listed in section 620(f) of this Act.[461]

(b) The Secretary of State—

(1) shall review, at least annually, the budgets and accounts of all international organizations receiving payments of any funds authorized to be appropriated by this chapter; and

(2) shall report to the appropriate committees of the Congress the amounts of funds expended by each such organization for the purposes described in subsection (a) and the

---

"(3) Of the funds made available for United Nations Development Program and United Nations Development Program—Administered Funds for fiscal year 1995, $27,600,000 may be available only if the President certifies to the Congress that—

"(A) the United Nations Development Program has approved or initiated no new programs and no new funding for existing programs in or for Burma since the United Nations Development Program Governing Council (Executive Board) meeting of June 1993,

"(B) such programs address unforeseen urgent humanitarian concerns, or

"(C) a democratically elected government in Burma has agreed to such programs.".

[460] Sec. 3 of the Middle East Peace Facilitation Act of 1993, as amended (Public Law 103–125; 107 Stat. 1309), authorized the President to suspend certain provisions of law, including sec. 307 of this Act, as they applied to the P.L.O. or entities associated with it if certain conditions were met and the President so certified and consulted with relevant congressional committees. This authority was continued in this Act, and in the Middle East Peace Facilitation Act of 1995, (title VI of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1996; Public Law 104–107).

The President issued certifications, as provided for in the 1993, 1994, and 1995 Acts, in Presidential Determination No. 94–13 of January 14, 1994 (59 F.R. 4777), which was extended until January 1, 1995, by Presidential Determination No. 94–30 of June 30, 1994 (59 F.R. 35607); until July 1, 1995, by Presidential Determination No. 95–12 of December 31, 1994 (60 F.R. 2673); until August 15, 1995, by Presidential Determination No. 95–31 of July 2, 1995 (60 F.R. 35827); until October 1, 1995, by Presidential Determination No. 95–36 of August 14, 1995 (60 F.R. 44725); until November 1, 1995, by Presidential Determination No. 95–50 of September 30, 1995 (60 F.R. 53093); until December 31, 1995, by Presidential Determination No. 96–5 of November 13, 1995 (60 F.R. 57821); until March 31, 1996, by Presidential Determination No. 96–8 of January 4, 1996 (61 F.R. 2889); until June 15, 1996, by Presidential Determination No. 96–20 of April 1, 1996 (61 F.R. 26019); until August 12, 1996, by Presidential Determination No. 96–32 of June 14, 1996 (61 F.R. 32629); until February 12, 1997, by Presidential Determination No. 96–41 of August 12, 1996 (61 F.R. 43137); and until August 12, 1997, by Presidential Determination No. 97–17 of February 21, 1997 (62 F.R. 9903).

Authority to waive certain provisions is continued in general provisions of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2003 (division E of Public Law 108–7); see secs. 534(d), 545, 548, and 552 (117 Stat. 194, 198, 199, and 200, respectively). See also sec. 563 (117 Stat. 204), restricting aid unless the Secretary of State certifies that certain conditions have been met pertaining to Palestinian statehood, and sec. 566 (117 Stat. 206), prohibiting assistance to the Palestinian Broadcasting Corporation.

On December 5, 1997, the President waived the provisions of section 1003 of the Anti-Terrorism Act of 1987 (Public Law 100–204) through June 4, 1998 (Presidential Determination No. 98–8; 62 F.R. 66255); further waived through November 26, 1998 (Presidential Determination No. 98–29; June 3, 1998; 63 F.R. 32711); through May 24, 1999 (Presidential Determination No. 98–5; November 25, 1998; 63 F.R. 68145); through October 21, 1999 (Presidential Determination No. 99–25; May 24, 1999; 64 F.R. 29537); through April 21, 2000 (Presidential Determination 00–2; October 21, 1999; 64 F.R. 58755); through October 21, 2000 (Presidential Determination No. 2000–19; April 21, 2000; 65 F.R. 24852); through October 17, 2001 (Presidential Determination No. 01–13; April 17, 2001; 66 F.R. 20585); through April 16, 2002 (Presidential Determination No. 2002–03; October 16, 2001; 66 F.R. 53505); through October 16, 2002 (Presidential Determination No. 2002–14; April 16, 2002; 67 F.R. 20427); through April 16, 2003 (Presidential Determination No. 03–03; October 16, 2002; 67 F.R. 65471); and through October 16, 2003 (Presidential Determination No. 2003–20; April 16, 2003; 68 F.R. 20327).

[461] Sec. 516 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999 (division A, sec. 101(d) of Public Law 105–277; 112 Stat. 2681) added ", or at the discretion of the President, Communist countries listed in section 620(f) of this Act.".

Sec. 516 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2003 (division E of Public Law 108–7; 117 Stat. 185), provides the following:

"LIMITATION ON AVAILABILITY OF FUNDS FOR INTERNATIONAL ORGANIZATIONS AND PROGRAMS

"SEC. 516. Subject to the regular notification procedures of the Committees on Appropriations, funds appropriated under this Act or any previously enacted Act making appropriations for foreign operations, export financing, and related programs, which are returned or not made available for organizations and programs because of the implementation of section 307(a) of the Foreign Assistance Act of 1961, shall remain available for obligation until September 30, 2004.".

amount contributed by the United States to each such organization.

(c)[462] (1) Subject to paragraph (2), the limitations[463] of subsection (a) shall not apply to contributions to the International Atomic Energy Agency or the United Nations Children's Fund (UNICEF).

(2)[463] (A) Except as provided in subparagraph (B), with respect to funds authorized to be appropriated by this chapter and available for the International Atomic Energy Agency, the limitations of subsection (a) shall apply to programs or projects of such Agency in Cuba.

(B)(i) Subparagraph (A) shall not apply with respect to programs or projects of the International Atomic Energy Agency that provide for the discontinuation, dismantling, or safety inspection of nuclear facilities or related materials, or for inspections and similar activities designed to prevent the development of nuclear weapons by a country described in subsection (a).

(ii) Clause (i) shall not apply with respect to the Juragua Nuclear Power Plant near Cienfuegos, Cuba, or the Pedro Pi Nuclear Research Center unless Cuba—

(I) ratifies the Treaty on the Non-Proliferation of Nuclear Weapons (21 UST 483) or the Treaty for the Prohibition of Nuclear Weapons in Latin America (commonly known as the Treaty of Tlatelolco);

(II) negotiates full-scope safeguards of the International Atomic Energy Agency not later than two years after ratification by Cuba of such Treaty; and

(III) incorporates internationally accepted nuclear safety standards.

(d)[464] (1) Notwithstanding subsection (c), if the Secretary of State determines that programs and projects of the International Atomic Energy Agency in Iran are inconsistent with United States nuclear nonproliferation and safety goals, will provide Iran with training or expertise relevant to the development of nuclear weapons, or are being used as a cover for the acquisition of sensitive nuclear technology, the limitations of subsection (a) shall apply to such programs and projects, and the Secretary of State shall so notify the appropriate congressional committees (as defined in section 3 of the Foreign Relations Authorization Act, Fiscal Year 2003).

(2) A determination made by the Secretary of State under paragraph (1) shall be effective for the 1-year period beginning on the date of the determination.

---

[462] Sec. 431(a)(2) of the Foreign Relations Authorization Act, Fiscal Years 1994 and 1995 (Public Law 103–236; 108 Stat. 459) added subsec. (c).

[463] Sec. 2809(a)(1) of the Foreign Relations Authorization Act, Fiscal Years 1998 and 1999 (subdivision B of division G of Public Law 105–277; 112 Stat. 2681) struck out "The limitations" and inserted in lieu thereof "(1) Subject to paragraph (2), the limitations". Sec. 2809(a)(2) of that Act added para. (2). See also sec. 2809(b) and (c) of that Act, in *Legislation on Foreign Relations Through 2002*, vol. II.

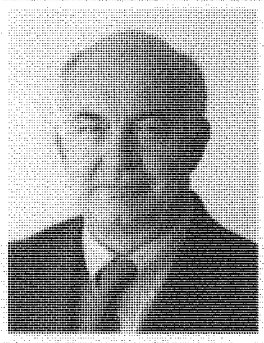
[464] Sec. 1342 of the Iran Nuclear Proliferation Prevention Act of 2002 (subtitle D of title XIII of the Foreign Relations Authorization Act, Fiscal Year 2003; Public Law 107–228; 116 Stat. 1451) added subsec. (d).

United Nations Development Programme

Who we are & What we do

Biography: Kemal Derviş, UNDP Administrator

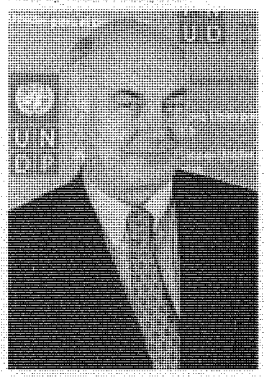
Kemal Derviş started as the new head of the United Nations Development Programme, the UN's global development network, on 15 August 2005. He is also the Chair of the United Nations Development Group, a committee consisting of the heads of all UN funds, programmes and departments working on development issues.



For a high-resolution version of this photo, go to: http://www.undp.org/about/KD/official_kd_5x7_hr.jpg

Credit: Photo by Robert Huberman/UNDP

Prior to his appointment with UNDP, Mr. Derviş was a member of the Turkish Parliament representing Istanbul from November 2002 to June 2005. During this time, he represented the Turkish Parliament in the Constitutional Convention on the Future of Europe and was a member of the joint commission of the Turkish and European Parliaments. He was also active in the Economics and Foreign Policy Forum, a Turkish NGO working on economic and political issues.



For a high-resolution version of this photo, go to: http://www.undp.org/about/KD/official_kd_6x8_hr.jpg

Credit: (c) UNDP/Andrew Gombert

This photograph of Kemal Dervis, Administrator, United Nations Development Programme, is available for use by bona fide news media organizations as part

of reports or feature stories on UNDP. Release permission is hereby granted for this purpose on the following conditions:
- Image content may not be changed by digital or any other means, except cropping.
- Image may not be archived in any format or distributed to a third party by any non-UNDP entity.
No other rights than those specified are either granted or implied.

From March 2001 to August 2002, Kemal Derviş was Minister for Economic Affairs and the Treasury without party affiliation of the Republic of Turkey, responsible for Turkey' s recovery programme after the devastating financial crisis that hit the country in February 2001. In August of 2002, after the crisis was overcome, he resigned from his Ministerial post and was elected to Parliament in November of the same year.

Kemal Derviş earned his Bachelor (first class honours) and Master' s degrees (with distinction) in economics from the London School of Economics and his Ph.D. from Princeton University. From 1973 to 1977 he was member of the economics faculties of the Middle East Technical University and then Princeton University. In 1977 he joined the World Bank where he worked until he returned to Turkey in 2001.

At the World Bank he held various positions including Division Chief for Industrial and Trade Strategy and Director for the Central Europe Department after the fall of the Berlin wall, a position in which he later coordinated the World Bank and donor community' s support to the peace and reconstruction process in the Balkans (Bosnia). In 1996 he became Vice-President of the World Bank for the Middle East and North Africa Region where he was active in supporting the Middle East Peace Process. In 2000, Kemal Derviş became Vice-President for Poverty Reduction and Economic Management where he was responsible for the World Bank' s global programmes and policies to fight poverty. He was also responsible for operational coordination with other institutions, including the United Nations system, the IMF and the WTO on international institutional and policy issues.

Kemal Derviş has been an active participant in various European and international networks including the Global Progressive Forum and the Progressive Governance Network. He was a member of the International Task Force on Global Public Goods co-chaired by Ernesto Zedillo, former President of Mexico and also a member of the Special Commission on the Balkans chaired by Giuliano Amato, former Prime Minister of Italy. He cooperated with the Global Economic Governance Programme at Oxford and the Center for Global Development in Washington. All these activities have had the common objective of finding ways to make globalization into a more stable and inclusive process and to further international cooperation.

Kemal Derviş has published many articles in academic journals as

well as current affairs publications on topics ranging from mathematical models of growth and social mobility and quantitative models of trade, to European enlargement and transatlantic relations (in English, Turkish, French and German - he is fluent in all four languages). A book entitled "General Equilibrium Models for Development Policy" which he co-authored was published by Cambridge University Press in 1982 and became a widely used textbook in development economics in the 1980s. In cooperation with the Center for Global Development he has published a new book entitled "A Better Globalization" (Brookings Press, March 2005) which deals with global development issues and international institutional reform.

Post of the UNDP Administrator

The UNDP Administrator is the third highest ranking official in the United Nations System after the Secretary-General and the Deputy Secretary-General. He is appointed by the Secretary-General and confirmed by the General Assembly for a term of four years. Paul G. Hoffman was appointed as the first Administrator of UNDP in 1966 and served until retirement in 1972. David Owen, who led UNDP's predecessor organization, the Expanded Programme of Technical Assistance (EPTA), was appointed as Mr. Hoffman's Co-Administrator. Rudolph A. Peterson was appointed Administrator in 1972 followed by Bradford Morse in 1976; William H. Draper III, 1986; and James Gustave Speth, 1993 to 30 June 1999.

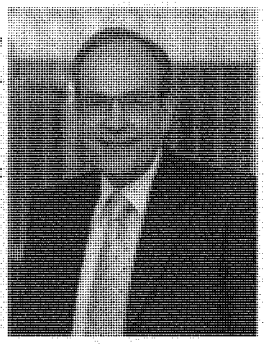
Biography of the former UNDP Administrator Mark Malloch Brown

^ Back to top

United Nations Development Programme

Who we are & What we do

Biography: Ad Melkert, UNDP Associate Administrator



Ad Melkert was appointed by Secretary-General Kofi Annan to the position of UN Under-Secretary-General and Associate Administrator of UNDP effective 1 March, 2006.

Previously, Mr. Melkert served as a member of the Board of Directors at the World Bank for over three years where, as Executive Director, Mr. Melkert represented Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, FYR Macedonia, Moldova, The Netherlands, Romania, and Ukraine. The Board of Directors of the World Bank, chaired by the President, oversees the bank's business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies, and borrowing and financial decisions.

Mr. Melkert joined the World Bank after a long and prominent political career in the Dutch Labour Party. He was member of Parliament and Minister of Social Affairs and Employment, becoming the party's parliamentary leader in 1998. In 2001 he was elected party leader, succeeding then prime minister Wim Kok.

Mr. Melkert has had a longstanding involvement in issues of international and development cooperation. He was active in the international and European youth movement and worked for the Dutch development NGO Novib. In Parliament, he was a member of the Standing Committees for Foreign Affairs and Development Co-operation. As a Minister, he led the Dutch delegations to the UN World Conference on Women in Beijing (1995) and to the International Labour Organization's annual meetings.

Mr. Melkert holds a Master's degree in Political Sciences from the University of Amsterdam. He is married to Chilean painter Mónica León Borquez and has two daughters. In addition to his native Dutch, he speaks English, German, French, and Spanish.

United Nations Development Programme

Executive Board

Executive Board Overview

- Information note on the Executive Board of UNDP/UNFPA
- Membership
- Rules of Procedure
- Session dates in 2008
- Secretariat of the Board

Documents

- Decisions of the Executive Board
- Reports on sessions
- Documents for sessions

Links and Resources

- Archive of official UNDP documents (since 1960)
- UN Official Document System

Search

GO

Home

^ Back to top

Français | Español

Executive Board of UNDP / UNFPA

One of the main reasons that UNDP is a trusted development partner all over the world is because it operates according to the principles and values of the United Nations. That means respecting each country's control over its own future, while bringing countries together to work on shared goals and challenges. The UNDP Executive Board is made up of representatives from 36 countries around the world who serve on a rotating basis. Through its Bureau, consisting of representatives from five regional groups, the Board oversees and supports the activities of UNDP, ensuring that the organization remains responsive to the evolving needs of programme countries. The Executive Board secretariat facilitates the work of the Board by reviewing and editing all documentation for submission to the Board. It makes logistical arrangements for three Board meetings each year and provides information and other support services to Board members.

Latest Updates

21 January - Statement by Kemal Derviş, UNDP Administrator, on the occasion of the first regular session of the Executive Board of UNDP/UNFPA

Daily briefs: 21 January | 22 January | 23 January | 24 January

Compendium of decisions adopted at the first regular session 2008

Tentative work plan for the annual session 2008 (16-27 June, Geneva)

Evaluation of results-based management in UNDP: UNDP response to questions raised by Executive Board members

United Nations Development Programme

Executive Board

Decisions of the Executive Board

Decisions are adopted by consensus among members of the Executive Board at each regular session. Decisions are focused and action-oriented, short and without preambular paragraphs. Since 1994, decisions adopted by the Executive Board have been documented by the secretariat.

Year	Language		
2007	English	Français	Español
2006	English	Français	Español
2005	English	Français	Español
2004	English	Français	Español
2003	English	Français	Español
2002	English	Français	Español
2001	English	Français	Español
2000	English	Français	Español
1999	English	Français	Español
1998	English	Français	Español
1997	English	Français	Español
1996	English	Français	Español
1995	English	Français	Español
1994	English	Français	Español

United Nations Development Programme

Newsroom

EXCERPT

Contents

News

- Topics
  - MDGs
  - Democratic Governance
  - Poverty Reduction
  - Crisis Prevention & Recovery
  - Environment & Energy
  - HIV/AIDS
- Regions
  - Africa
  - Arab States
  - Asia & the Pacific
  - Europe & the CIS
  - Latin America & the Caribbean
- Dates
  - 2007
  - 2006
  - 2005
  - 2008

Speeches

- UNDP Administrator Kemal Dervis
- UNDP Associate Administrator Ad Melkert
- Other Speeches and Statements
- Topics
  - MDGs
  - Democratic Governance
  - Poverty Reduction
  - Crisis Prevention & Recovery
  - Environment & Energy
  - HIV/AIDS
- Region
  - Africa
  - Arab States
  - Asia & the Pacific

18 June 2007

Kemal Dervis -Annual Session of the UNDP/UNFPA Executive Board

Statement by Kemal Derviş,
Administrator of the United Nations Development Programme
on the Occasion of the Annual Session
of the UNDP/UNFPA Executive Board

18 June 2007, New York

Mr. President,
Excellencies,
Distinguished Delegates,
Dear Colleagues,

This Board meeting comes at a very important and challenging time. We have achieved a lot together over the past two years – UNDP has grown and become stronger and more effective – and we are currently delivering more in terms of our programmes than ever before. At the same time the challenges are immense and we face some very tough choices. I will as usual be very frank in my remarks this morning. I will also sincerely welcome not only your thoughts but your criticisms and specific suggestions for the future. UNDP, and more generally the United Nations in development, can only be successful with the full support of this Board and our member countries. Your active support and involvement is essential. We want it, we welcome it, we need it.

Let me come right away to what the key challenges and choices are.
First there is a problem of timing. The debate on UN coherence in development has only just started in the General Assembly (GA). There are disagreements among Member States on how it should be conducted and Member States are much less advanced in this debate than what many expected a year ago.

The next Triennial Comprehensive Policy Review (TCPR) is ahead of us. And yet, the previously agreed calendar demands that UNDP's medium term strategy should be formulated now, and receive your approval in September. So there is really a timing issue. Tomorrow we will be dealing with the details of the Strategic Plan, and yet many of the issues that have an impact on the medium and long-

* Europe & the CIS
* Latin America & the Caribbean

* Date
* 2006
* 2005
* 2007
* 2008

Search

GO

term strategy of UNDP, and indeed of the wider UN in development, is going to be discussed I the weeks and months ahead.

This timing has presented us with the problem of writing the draft Strategic Plan without yet having the benefit of knowing the outcome of the discussions that will take place. You are having the same problem on your side. And yet we should have our new strategy in place and approved by the end of this year so that our work has your formal endorsement. This timing issue has led us to write the strategy in a way that is essentially based on the last TCPR and with sufficient amount of flexibility so that new guidance that will surely emerge over the coming months can be incorporated naturally. For example, the strategy projects a gradual evolution of the role and authority of the resident coordinators accompanied by an increasing presence and role of UNDP country directors over the 2008-2009 period, rather than an abrupt change at the start of 2008. How exactly this should work does depend on the outcome of the next TCPR as well as the General Assembly discussions relating to coherence. We can therefore adjust these roles accordingly. Nonetheless, it may be good to agree already now that at the Board meeting of January 2008, we should have a session explicitly discussing what adjustments, if any, UNDP should make in the implementation of the Strategic Plan to best reflect the views and recommendations emerging from the discussions to take place in the coming months. This is the first issue that I wanted to highlight this morning.

A second and related problem is that I sense serious disagreements among member states on several issues. If these disagreements persist neither UNDP nor the wider UN Development Group can formulate a long term strategy that will reflect the aspirations of all our members. So we have to work together to reach consensus. The management of UNDP has of course a key role to play: we will propose solutions; we will try to facilitate discussions; but I hope that you, amongst yourselves, will also reach consensus that will help us move ahead. Take the issue of internal audits, for example. One high- income member country, supported by some others, wants UNDP and other UNDG agencies to publicly share our internal audits, going well beyond the current practice of making these internal audits available to the external auditors only. Other members of this board, from Europe as well as the developing countries, have expressed their strong opposition to such a change, arguing that internal audits are management tools and that there are confidentiality and national sovereignty issues involved. We are trying to propose what I think is a reasonable course of action, namely making the audits available to members of this Board, but to you only and at UNDP premises. We are also working with our sister agencies within the framework of the CEB to try to reach a common policy. Clearly we would very much welcome an approach that had the support of all of you. On this issue and on governance

issues more generally, I would like to stress that good governance requires not only formal rules but also capacity and legitimate balance. Many international organizations face the problem that the developing countries, particularly the least developed, do not always have sufficient resources to fully exercise their share of governance. We should make every effort to help all members of this Board in their governance and oversight roles. Otherwise what happens is that governance is "de facto" exercised by the rich and powerful only.

Another area of debate seems to relate to how much coherence and coordination is really desirable among UN agencies. Are we talking about a very loose form of working together, or is a more integrated programming and coordinated delivery of support desirable? What are the most effective funding mechanisms? How can we more decisively cut down duplication and increase the skills that the UN family can deploy in support of development? These were the big topics debated by the High-Level Panel (HLP). A vision was formulated with the participation of leaders from high, middle and low income countries. But the fact is that this vision has not yet been accepted by our governing organs - indeed as I just mentioned - the real debate has hardly started. So we are a little bit caught in the middle. On the one hand there are those who are asking us to move very fast in the direction of the HLP vision - and some think we are not moving fast enough. On the other hand, there are those who are asking us to wait and abstain from any action that could be interpreted as an adoption of the HLP vision. To resolve this dilemma, we have, with your support, adopted the "pilot countries" approach. Following explicit requests from 8 programme countries the UN Country Teams, under the leadership of the government and resident coordinators, are partnering with governments in developing models of increased coherence appropriate to each one of the pilot countries. As I stressed on many occasions, these are pilots, not models that will necessarily gain universal legitimacy. One size does not fit all and different paths are being explored, taking into account different circumstances, all under government leadership. I hope that we will be able to learn concrete lessons from these pilots and share these lessons with you. Already next week there will be an informal event bringing the preliminary experiences in front of interested member countries for an open discussion. All this should help the GA debate and the TCPR. And it will help us formulate alternatives among which countries can chose. But there cannot and should not be any doubt in anybody's mind : countries will chose the preferred modalities of UN coherence at the country level, just as they will and should always chose the development strategies that fit local circumstances best. There cannot be a one-size-fit-all UN coherence model at the country level.

Finally, let me say a few words on another area of debate: the role of universal principles and the values of the UN Charter, including

the common commitments we have all made to values such as human rights and gender equality, and the specific priorities and circumstances of individual countries. Some commitments are indeed universal and the UN Charter is a binding common commitment. So we have to work within the ethical and universal framework of the Charter. There are also important internationally agreed goals and values as expressed in various "outcome documents" agreed on by all. I could not imagine working at the United Nations if I was not totally committed to the cause of Human Rights. Our approach to these issues at the country level is and has to be one of support to capacity development, however, not one of political conditionality. Political conditionality is not part of our mandate and manner of working. Human rights are at times endangered in every country on the planet. Social exclusion, violence - in particular against women and children, police or other forms of brutality, failures in the rule of law, untreated illness ... these are problems we find everywhere to some degree. Our role, within our mandate, is to help build capacity to deal with these problems. It in this spirit that the operational principles proposed in the draft Strategic Plan should be understood. I hope I am correct in my belief that we have full agreement on this framework and I trust you will express your support to this understanding. If the Strategic Plan does not formulate this clearly enough, we will have to make it clearer. I hope the work we are doing with you on this and other matters will lead to a more accurate wording in the draft that you will all be able to fully support.
As the Board discusses the overall direction of UNDP's draft Strategic Plan 2008-20011, in the days and weeks to come, and as the General Assembly debates UN coherence, we must all realize that this is a pivotal time for UNDP as well as the entire UN development family. The United Nations is the family of all Nations. We can only advance with your support. We can propose avenues of change, compromises between different positions and practical arrangements. But we cannot substitute for governments in reaching agreement. I do very much hope that the spirit of constructive multilateralism will prevail, that positions that seem far apart can be brought closer together, and that with the support of this multilateral Board, UNDP and our sister agencies can strengthen the support we provide to people around the world, particularly to the least fortunate and to those in greatest need.

After these introductory remarks, I would like to briefly look back on UNDP's activities over the last year; provide an update on developments since the January Board session, in particular on management and accountability; and also give some introductory comments on the draft Strategic Plan which will be discussed more fully tomorrow, within the constraints and mindful of the timing issues that I referred to.

I. The year in review

LIMITED SCOPE AUDIT

DRAFT

UNDP OFFICE

IN

Democratic People's Republic of Korea (DPRK) (DRAFT)

UNDP

Report No. RCMXXXX
Issue Date: did <Month> 2004

Regional Audit Services Centre - Malaysia

Permanent Subcommittee on Investigations
UNDP Report - FN 17

Table of Contents

I. Executive Summary 3

II. Introduction 6

III. Operational Overview 7

IV. Detailed Assessment 12

1. Country Level Programme 12
2. Management 14
3. Knowledge-sharing and Implementation of Practices 20
4. Partnerships and Resource Mobilisation 21
5. Support to UN Coordination 23
6. Advocacy Services 24
7. Development Services 25
8. Human Resources Administration 31
9. Procurement, Inventory and Office Premises 34
10. Financial Resources 36
11. General Administration 40
12. IT and Communications 43

V. Summary of Recommendations 44

VI. Annexes 50

I. Executive Summary

Objectives and Scope

A limited scope audit of the UNDP Office in Democratic People's Republic of Korea (DPRK) was conducted in the field between 2 and 13 August 2004. Due to the absence of a programme specialist on the audit team and due to time constraints, the scope of the performance audit was reduced and limited to an assessment of the following areas:

- Management of People
- Development Services
- HR Administration
- Procurement
- Financial Resources

In OAPR's opinion, the overall performance of the UNDP Office in DPRK was **partially satisfactory** over the period 1 January to 31 December 2003.

Overall Opinion

Overall, the Office's operations are satisfactorily managed over the period of January to December 2003 in the areas of Finance, Procurement and Human Resources Administration.

The overall rating of **partially satisfactory** is based on the overriding concern over the long term sustainability of the Office in terms of office capacity.

The long term sustainability of the Office is critical given the need to increase capacity in terms of both international and national staff for satisfactory project delivery. However, this is constrained by the limited status of extra-budgetary resources as at the end of 2004 (sufficient for only 10 months operations) and lack of capacity and continuity of Government seconded national staff who are not competitively selected by the Office.

In an effort to increase capacity, the Office has addressed the issue using inappropriate and short term solutions such as use of TRAC and project resources to fund staff performing Office functions:

- The Office has requested RBAP approval to use TRAC funds to recruit three international and two national staff to effectively implement the proposed Global Fund for AIDS, Tuberculosis and Malaria (GFATM). The request is only for one year and there is no funding plan in place for these staff beyond the first year. This approach of funding Office capacity from TRAC is inappropriate as TRAC funds are not being used for development projects, but instead are being used for administrative support costs. Bearing in mind donors apparent concern on funds not being used for humanitarian and development interventions, in OAPR's opinion, expenditure incurred under this Project Unit would not conform to the purposes for which TRAC funds have been appropriated. Additionally, this will result in inaccurate financial reporting of donor funds as project delivery figures will be inflated and administrative support costs understated, giving misleading information that delivery has increased with no apparent increase in authorised posts or staffing costs. This short term solution is also not sustainable for a programme that is medium/long term in nature as the GMS earned from administering the fund in the first year is insufficient to cover the costs of the additional staff, beyond the first year.

- One international UNV, one national Programme Officer and one national Programme Assistant are performing both Office and project functions, but are being funded entirely from two projects, and not from the office administrative budget.

Key Office positions have been filled using contracts of limited duration, or are Government seconded staff who do not hold UNDP contracts:

- The Operations Manager post which is a core and critical function for the continued activities and long-term sustainability of the Office, has been held by staff on short term contract modalities such as SSA and ALD funded from extra-budgetary resources. This is not compatible with the long-term nature of the functions of Operations Manager and due to the limited status of extra-budgetary resources, this critical post cannot be funded in the long run; and

- All national staff are seconded from the Government and are not recruited with UNDP contracts. The Office has no control over recruitment of staff as the Government only provides one candidate for each post and does not provide detailed qualifications, work experience or personal details to the Office. The staff are recalled from UNDP at the entire discretion of the Government.

In OAPR's opinion, RBAP assistance is urgently needed in terms of a long-term strategy and action plan to increase the capacity of the DPRK Office.

The other areas that require the Office's attention are:

a) Monitoring project outputs/objectives by consistent implementation of annual progress reports, especially for projects of significant value;

b) Strengthening the transfer and monitoring process of project non-expendable inventory to the Government via evaluation by the Office's Contracts, Assets & Procurement (CAP) committee, ensuring inventory lists are complete and certified by the Office/executing agency and ensuring that project equipment is received by authorised Government personnel; and

c) Implementing the recovery of support services provided by the Office to NEX/DEX projects.

Acknowledgement

The audit team wishes to extend its thanks and appreciation to the Country Director and the staff of the UNDP Office in DPRK for their availability and co-operation during the course of the audit.

Ratings Summary

Category		N/A	D	PS	S
1. Country level programme					
1.1. CCA and UNDAF	Not Assessed				
1.2. SRF and CCF/Country Programme	Not Assessed				
1.3. ROAR verification	Not Assessed				
1.4. Outcome monitoring and evaluations	Not Assessed				
2. Management					
2.1. Planning and monitoring	Not Assessed				
2.2. People	Deficient				
3. Knowledge-sharing and implementation of practices					
4. Partnerships and resource mobilisation					
4.1. Partnerships within the development community	Not Assessed				
4.2. Resource mobilisation	Not Assessed				
4.3. Government relations	Not Assessed				
5. Support to UN coordination					
5.1. Resident coordinator role	Not Assessed				
5.2. Common services provided by the office	Not Assessed				
6. Advocacy services					
7. Development services					
7.1. Project design, appraisal and approval	Partially Satisfactory				
7.2. Project monitoring	Partially Satisfactory				
7.3. NEX/NGO audit process	Satisfactory				
7.4. Country office support to project implementation	Partially Satisfactory				
7.5. Management of non-core contributions	Satisfactory				
8. HR administration					
8.1. Office staff	Satisfactory				
8.2. Project/other staff	Satisfactory				
8.3. Consultants and temporary assistance	Satisfactory				
9. Procurement, inventory and office premises					
10. Financial resources					
10.1. Commitments, disbursements and receipts	Satisfactory				
10.2. Banking operations and cash management	Satisfactory				
10.3. Monitoring financial resources	Satisfactory				
11. General administration					
11.1. Vehicles	Not Assessed				
11.2. Travel, shipping and hospitality	Not Assessed				
11.3. Security	Not Assessed				
11.4. Registry/records	Not Assessed				
11.5. Housing (where applicable)	Not Assessed				
12. IT and communications					

Note: N/A = Not Assessed, D = Deficient, PS = Partially Satisfactory, S = Satisfactory

II. Introduction

Objectives

The audit was conducted according to the audit approach to CO audits which objectives are summarised as follows:

1. To provide senior management with a holistic assessment of CO performance that identifies significant constraints, if any, preventing COs from achieving fully satisfactory performance.

2. To provide Office management with feedback, both positive and negative, on the Office's performance and potential for improvement taking into account lessons from experience within the Office as well as from elsewhere.

3. To strengthen accountability for good and poor performance by documenting findings and reporting results for follow-up by senior managers.

4. To verify results reported by COs, such as those contained in the ROAR and MRF, which will enable bureaux to better target their monitoring and support activities, and glean lessons for improving performance across all COs.

5. To assess CO compliance with Executive Board decisions, UNDP Financial Rules and Regulations and UN Staff Rules and Regulations in order to protect the accountability of the Administrator to the Executive Board and the Secretary-General and report instances of non-compliance for information and consideration of performance measures.

Scope and Approach

The audit was conducted in accordance with the document - *OAPR Guide to Assessing and Improving CO Performance*, which is available on OAPR's Intranet site.

Period of Audit Mission

The audit covered the period of 1 January to 31 December 2003 and was conducted in the field between 2 and 13 August 2004.

Audit Team

The audit team included two OAPR staff and one auditor on loan from the international audit firm Ernst & Young in Malaysia:

- Ms Cheryl-Lynne Kulasingham, Team Leader - OAPR/RASC-Malaysia
- Ms. Hui Lian Lock, Audit Specialist - OAPR/RASC-Malaysia
- Mr. Wai Choong Wong, Manager - Ernst & Young, Malaysia

The audit team did not include a programme specialist, which would have permitted coverage of programme areas.

Office Management

The Office's management team is comprised of:

- Mr Masood Hyder, RR/RC from August 2002 to July 2004;
- Mr Abu Selim, Country Director since December 2001; and
- Ms Sara Adams, Operations Manager since July 2003.

III. Operational Overview

Operating Environment

DPRK is a country in a special development situation. The population of DPRK has suffered from food shortages and a decline in general health and welfare standards due to changes in external circumstances, i.e. loss of traditional partnerships with socialist countries since the late 1980's, and a series of severe natural disasters throughout the second part of the 1990's. The country has also suffered from imposition of economic, diplomatic and other sanctions. The extent of the countries difficulties is indicated by a 50% drop in gross domestic product between 1992 and 1998 to just over $10 billion.[1]

Economic constraints and natural calamities have led to a rapid erosion in the quality of economic infrastructure. The energy sector has been severely disrupted, partly due to the flooding of coalmines and partly due to a lack of fuel supplies. This has led to a severe disruption of agricultural and industrial production. Although having recovered since 1997, agricultural production is around half what it was in the 1980s. The reduced capacity of the country to obtain commercial imports has led to a sharp decline in the availability of food, and to a great deal of food insecurity.[2]

DPRK receives extensive humanitarian support from a variety of bilateral and multilateral donors. Humanitarian assistance is largely in the form of food aid through the World Food Programme (WFP), which averaged over $200 m annually over the last four years. The amount of food aid was estimated at approximately $2 billion between 1995 and 2003. WFP and FAO estimates suggest that the country has a food deficit of 1 m tonnes of grain per year.[3]

The re-emergence of the nuclear issue in October 2002 has resulted in deterioration in the relations between DPRK, Republic of Korea, Japan and the United States. This has resulted in continued reluctance of some donors to provide humanitarian assistance. Most donors are reluctant to support rehabilitation and development activities until the nuclear issue has been resolved. The negative impact of the nuclear issue was compounded by the Severe Acute Respiratory Syndrome (SARS) epidemic in 2003, due to DPRK's proximity to China.[4]

UN Strategy

The first CCA for DPRK was finalised in March 2003 and was a collaborative product of the UNCT, Government, resident NGOs, non-resident agencies and other development partners. The joint UNCT/Government Steering Committee was co-chaired by the RC and the Secretary General of the National Coordinating Committee. Seven Joint Thematic Groups were established identifying the following priority areas:

a) Food Security
b) Health & Nutrition
c) Water, Environment & Sanitation
d) Education
e) Gender
f) Development Cooperation
g) Energy & Environment

[1] Second CCF (2001-2004)
[2] 2003 CCA
[3] Country Programme (2005-2006)
[4] Resident Coordinator Annual Report for 2003

The UNDAF is planned for 2004/2005. Several short term formulation missions on the UNDAF have been undertaken.

The following UN Agencies are represented in DPRK:

	As of 30 Apr. 04	Personnel
1	WFP	40
2	UNICEF	10
3	UNDP	5
4	WHO	3
5	UNFPA	1
6	FAO	1
7	OCHA	1
	Total [5]	**61**

IAEA had consultants in the country until late 2002. None of the UN Agencies share common premises with UNDP.

UNDP in DPRK

The CCF (2001-2004) identified three areas of concentration which were agriculture, energy and transport.

The draft country programme (CP) document (2005-2006) reflects the intention of the UNCT to harmonize programming periods and lay the foundation for a possible CCA and UNDAF. The funding of the CP amounts to $22 m, of which $16 m is regular resources and $6 m is from other resources (GFATM of $5 m and GEF of $1 m). As at July 2004, the CP has been submitted to the Executive Board Secretariat for approval in September 2004.

A critical role of the proposed two-year programme is to build the human capacities and knowledge base needed for adjustments in three areas:

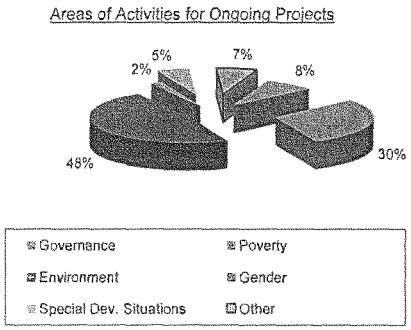
a) Rural sector and natural resource management;
b) Economic management; and
c) Social sector management

Due to the extensive humanitarian support and food aid, the former RR/RC was a WFP staff assuming the functions of WFP Representative and Humanitarian Coordinator.

Internet connectivity to the Office was only available to the Office in September 2003, with the VSAT installation.

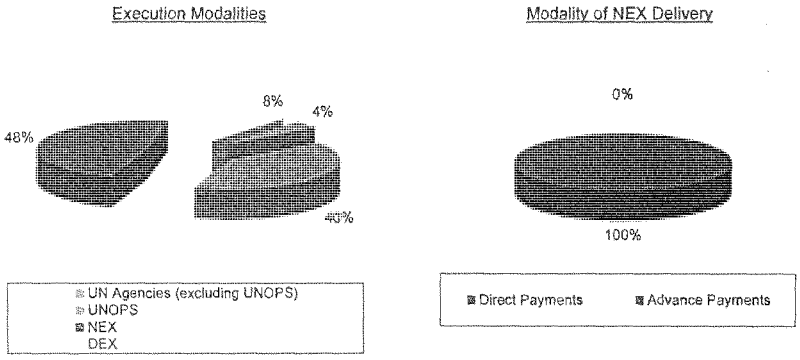
[5] UN Security Plan as of September 2003. Consists of international staff only, including UNVs.

Programme Resources



As at December 2003, there were 31 on-going projects with a total budget value of $12 m. The largest share of programming resources is to Environment (48%) and Poverty (30%). This is in line with the CCF (2001 to 2004) where focus is on environmentally sustainable development towards reducing poverty and improving the well being and security of the poor.

NEX and Government Counterparts



Out of the total budget value of on-going projects of $12 m, 48% is NEX, 40% is executed by UNOPS, 8% is DEX and the remaining 4% by other agencies. The Office is providing 100% support services to NEX projects in terms of direct payments.

The Office's main Government counterparts are the Ministry of Foreign Affairs and the General Bureau for Cooperation with International Organisations, Ministry of Foreign Trade.

Performance Indicators

Level of Programme Responsibilities

	RBAP Average	UNDP DPRK
Number of ongoing projects	49	31
Number of programme personnel	38	6
Number of Projects per programme personnel	1.3	5
Annual Project Expenditure per programme personnel ($000s)	344	314
Average budget value per ongoing project (in $000s)	1,342	390

The number of on-going projects in DPRK of 31 is significantly lower than the RBAP average of 49 projects. Due to the small number of programme staff, the Office handles a significantly higher number of projects per staff (5) compared to the RBAP average of 1.3. However, in spite of the higher number of projects, project expenditure per staff in DPRK of $314 k, is less than the regional average of $344 k.

Due to the lower number of projects and project expenditure in DPRK, the average budget value per on-going project of $390 k is significantly lower than the regional average (30% of the regional average of $1,342 k). Furthermore, 80% of project expenditure in 2003 relates to only 10 projects.

Local Office Costs

	RBAP Average	UNDP DPRK
Post adjustment index (for reference only)	25	38.6
Admin. Costs over Project Expenditure (excluding international staff)	8.7%	15.3%
Number of local personnel	33	22
Total Admin. Costs per Local Staff ($000s)	34	13

The ratio of annual office costs to annual project expenditure of 15% in DPRK is much higher than the RBAP average (9%). The main reason for this higher ratio is because of a decrease in project expenditure in 2003 of almost 50% compared to 2000 levels, whereas, office expenditure has more or less remained constant at approximately $289 k compared to 2000.

The number of local staff in DPRK (22) is much lower than the regional average (33). The office cost per local staff is low, at only $13 k per staff as compared to $34 k for the RBAP average. This is due to the fact that only 12 out of 22 local staff are funded from office administrative resources. (The other 10 staff are funded as follows - 7 from projects, 2 by the Government and 1 from the RC budget). Furthermore, local staff do not hold UNDP contracts and hence, the Office only bears the cost of the average monthly salary of $285 and meal allowance of $120 for the 12 staff. The Office pays no other benefits such as pension fund and MIP.

Support to the UN System

	RBAP Average	UNDP DPRK
Average monthly vouchers for UN agencies (number of vouchers)	556	74
Total average monthly vouchers (number of vouchers)	988	147
Admin. support to UN	56.3%	50.3%

Majority of administrative support services are for two resident UN Agencies (FAO and UNFPA) and also for UNOPS as an executing agency. The Office's level of administrative support to UN Agencies is slightly lower than the regional average, partly due to the fact that the two largest Agencies (WFP and UNICEF) have their own support staff.

Global Staff Survey

All national staff are seconded by the Government and do not hold UNDP contracts. National seconded staff have not been required to participate in the Global Staff Survey as this is a requirement only for 100, 200 and 300 series staff. As such, there have been no staff survey results for 2002 and 2003 as there were no such contract holders in UNDP DPRK, other than the Country Director who participated in the Survey.

IV. Detailed Assessment

1. Country Level Programme — Not Assessed

1.1. CCA and UNDAF — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.2. Strategic Results Framework and CCF/Country Programme — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.3. ROAR Verification — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

1.4 Outcome Monitoring and Evaluations Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

2. Management — Deficient

2.1. Planning and Monitoring — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

2.2. People — Deficient

Overview

Office Staffing

As at 31 December 2003, the Office staffing consists of two international staff, 22 national staff (three National Officers and 19 General Services staff) and one SSA.

The international staff consisted of the RR/RC and the Country Director. There are no Deputy posts in the Office as the two deputy posts of DRR-Programme and DRR-Operations were combined during the downsizing exercise in 2001. The post of DRR-Programme was upgraded into a Senior Deputy Resident Representative and subsequently converted to a Country Director post. This was because the former RR/RC was a WFP staff assuming the functions of WFP Representative and Humanitarian Coordinator. As he was predominantly involved with WFP management and humanitarian assistance, the management of UNDP programme and operations was solely handled by the Country Director.

The Operations Manager post was held by a staff on a short-term contract (SSA). This post was converted to a one year ALD contract in March 2004 with Headquarters approval. In 2003, there was no ARR-Programme. However, Headquarters has since approved this post. The post description has been finalized at Headquarters in July 2004 and the post is expected to be advertised shortly.

The national staff are seconded by the Government and are not recruited with UNDP contracts. National staff can be recalled anytime at the discretion of the Government. The staffs are funded as follows:

Funding	No. of Staff
DPVC	10
PROJECT	6
DPXB	2
GOVT (1)	2
GCCC (2)	1
RC	1
Total	**22**

(1) The staff's salary is fully paid by the Government.
(2)The staff is a driver who is funded from a Government Cash Counterpart Contribution (GCCC) paid by the Government in 2002. The GCCC is now reflected as a project in Atlas.

Out of the 22 staff, there are 12 Office staff, five drivers and five cleaners/gardeners. Seconded staff are recalled entirely at the discretion of the Government. Hence, the Office has no control over the hiring of staff and length of service of staff. As at August 2004, eight staff have more than five years service with UNDP, with the two longest serving staff having almost nine years service. The remaining 14 staff have less than five years of service. The gender distribution of national staff is 60% male and 40% female. Refer also to Section 8.1 – Office Staff.

Re-profiling Mission

A re-profiling mission was undertaken in mid 2002, to validate the proposals from the 2002 Key Results Strategy Paper for UNDP DPRK prepared by the Office in June 2002. A Re-profiling Action Plan was submitted by the team leader to the Office in January 2003. However, no formal report was issued as per the BoM website.

Alignment of Job Functions with Office Requirements

Job descriptions have been created for all posts and job functions aligned with Office requirements:

- Finance – currently there is a Finance Officer, assisted by the Registry/Finance Assistant. The Office is considering moving the PSU staff to Finance, to increase the capacity from two to three.
- Registry/Reception – currently, there are two staff performing this function independently. These two roles will be combined when the current Receptionist is withdrawn and a replacement given by the Government.

Vacancies

As per the Organigramme, the positions of two Chief Technical Advisor posts (funded from projects) and a Programme Assistant-RC Coordination (funded from the RC budget) are vacant. The status of the recruitment of these posts is as follows:

- Chief Technical Advisor (Agriculture Rehabilitation and Environment Protection) & Chief Technical Advisor (Enhanced Capacity Development) – recruitment of these positions is on-going as there is difficulty in attracting qualified candidates on a long term basis due to living/working conditions in the country, and situations where selected candidates have not been given visa approval by the Government.

- Programme Assistant for RC Coordination – UNDGO has verbally indicated the possibility that a UNV position could be funded from the RC budget. The Office will include this post in the 2005 RC budget.

Learning Plan

The Operations Manager has been made the Learning Manager since July 2003. A Learning Plan was developed based on a training needs assessment of each staff. Scheduling of training however, is constrained by the requirement of the Government for all staff leaving the country for training to be accompanied by another staff of the same gender. This constraint of sending two staff at a time (for training that may not be relevant to the accompanying staff) also reduces the funds available for training.

Global Staff Survey

As all national staff are seconded from the Government and do not hold UNDP contracts, they have not been required to participate in the Global Staff Survey as this is a requirement only for 100, 200 and 300 series staff. As such, there have been no results for the staff survey of 2002 and 2003. The Country Director is the only such contract holder and has participated in the Survey.

RCA

The RCA process has not been implemented by the Office as the reaction from the Government in the past was negative. In the absence of the RCA, a training needs assessment was done for each staff and incorporated in the Learning Plan.

Corporate Issues

Use of ALD to Hire Operations Manager

Since 2002, there has been a lack of continuity in the post of Operations Manager as the position has been filled by staff on short-term contracts as follows:

Position	Staff	Period	Contract Type	Duration
DRR-O	Neil Reece-Evans	2000-2001	Fixed Term	12 months
Operations Manager	Jaginder Kanwar	Mar 01 to Aug 01	SSA	5 months
	Yolanda Dubois	Jan 02 to Jul 02	UNV	7 months
	Naomi Scott	Jul 02 to May 03	SSA	11 months
	Sara Adams	Jul 03 to present	SSA & ALD	13 months

In March 2004, the Office requested and obtained approval from Headquarters for the post to be converted to a one year ALD-4 contract modality which will result in the post being continuously filled by the same staff for approximately two years, from July 2003 to March 2005. The Office was able to fund the ALD post from extra budgetary resources for one year with the assistance of WFP, as 30% or $45 k of the cost for the year was shared with WFP in line with the Inter-Agency Mobility Programme which allows staff from UN Agencies to switch from one agency to another (the current Operations Manager is a WFP staff on special leave without pay). This arrangement gives rise to the following concerns:

a) The Operations Manager position is a core and critical function for the continued activities and long term sustainability of the Office. Short-term contract modalities such as SSA and ALDs are not compatible with the long-term nature of the functions of Operations Manager; and

b) Taking into account projected income and expenditure in 2004, the estimated status of DPXB as at end 2004 is sufficient for only another 10 months of operations. Hence, the

Office is unlikely to be able to fund this post from extra budgetary resources on a long term basis, beyond the expiry of the current Operations Manager's contract in March 2005.

In OAPR's opinion, the critical position of an Operations Manager cannot be nationalized given that all national staff are seconded from the Government and hence, the selection process is not competitive or based on relevant qualifications for the post. Furthermore, the length of service of national staff is not fixed as staff can be recalled at the discretion of the Government. (Refer to Areas Requiring Action – Selection Process of Office Staff). Consequently, the post of an international Operations Manager is necessary for the continuity of the Office and funding to this effect needs to be secured by RBAP.

Good Practices

None.

Areas Requiring Action

TRAC Funds Used for Administrative Support to Projects

UNDP DPRK has been designated as a Principal Recipient of the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM), as required by the GFATM Board for countries where special conditions have been imposed. The Grant Agreement has yet to be signed. As at August 2004, the Office is preparing for the audit/evaluation by the Grant Fund auditors, as required by the Grant Agreement. As per the Country Programme (2005-2006), total funds of $5.5 m are expected from GFATM.

The Office does not have the capacity to implement the Grant. To increase capacity, the Office is proposing to recruit three international staff and two national staff to be funded from TRAC. (The Office has submitted a project document to RBAP for approval to set-up a Technical Assistance Project Unit for these administrative support services to be funded from TRAC amounting to $240k. The Project Unit is initially for one year and the Office has confirmed that it will subsequently ask for extension for another year).

In OAPR's opinion, using TRAC resources to fund additional Office capacity is not appropriate.

TRAC funds are specifically for development projects and not for funding administrative support costs. Bearing in mind donors apparent concern on funds not being used for humanitarian and development interventions, in OAPR's opinion, expenditure incurred under this Project Unit would not conform to the purposes for which TRAC funds have been appropriated.

Additionally, this approach of using TRAC funds results in inaccurate financial reporting of donor funds. Administrative support costs will be reported as project expenditure, i.e. project delivery figures will be inflated, whilst support costs figures will be understated. This inaccurate reporting would be misleading to donors, giving the wrong impression that delivery has increased while there has been no apparent increase in the authorized posts or staffing costs of the Office.

Furthermore, this approach is a short-term solution to a structural issue of a medium/long-term nature. The use of TRAC in the first year of the project is not sustainable to deliver the GFATM project, as the estimated GMS earned by the Office from administering the funds in the first year is $71 k (2.67% of the estimated amount to be mobilized in the first year i.e $3 m), which will be insufficient to cover the cost of these staff beyond the first year of the project.

Recommendation 1

The Office should not enter into the Grant Agreement if it is unable to secure long term funding to increase office capacity that would permit to satisfactorily deliver the requirements of the Programme. The Office should:

a) Prepare a feasibility study of the resources needed to fund the additional office capacity to deliver the GFATM programme in the long run; and
b) Seek advice/support from RBAP on options available (other than TRAC) to secure funding as per the feasibility study, for the entire life cycle of the programme and not just for the first year.

Staff Performing Office Functions Funded from Projects

As at December 2003, there are three international UNVs and seven national staff charged to projects. Out of these ten staff, three staff consisting of an international UNV Procurement Specialist, one national Programme Officer and one national Programme Assistant are performing both office and project functions, but are being charged entirely to two projects (12256-AREP and 12273-GIS/RS), instead of the Office Administrative Budget. The staff have been funded from projects due to the limited extra-budgetary resources available (as at end 2004, the status of extra budgetary resources is sufficient for only 10 months of operations).

To address the issue of limited extra-budgetary resources, the Office has previously explored the possibility of funding existing office posts through the following avenues:

- Expanded UNV Programme, incorporating a national UNV component in collaboration with UNV Bonn, to secure fully-funded UNVs by donors.
- Recruitment of a JPO (Programme Development & Evaluation Officer).

However, the Office lacked a senior programme staff (ARR–Programme level) to supervise an expanded UNV Unit (a prerequisite for fully funded UNVs) and the JPO post.

Recommendation 2

The Office should:

a) Seek advice/support from RBAP on alternative options to increase extra-budgetary resources to fund these project staff performing office functions, until such time that the Office is able to generate it's own extra-budgetary resources;

b) Ensure that staff performing Office functions are charged to a management project (extra budgetary resources) in Atlas instead of a development project; and that the costs of support services provided by these staff to projects is recovered in accordance with the Policy of Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.

c) Revisit its efforts to recruit JPOs and fully funded UNVs to expand the existing capacity, especially once the ARR-Programme post is filled and there is additional supervisory capacity in place.

Selection Process of Office Staff

The Office does not control the hiring of national staff and the length of their service of such staff. All national staff are seconded from the Government and are not recruited by UNDP. The Government only provides one candidate for each post and does not provide detailed qualifications, work experience or personal details to the Office. As such, there is no basis for the Office to align qualifications of staff with post descriptions. Additionally, seconded staff can be recalled at anytime at the discretion of the Government.

In 1998, the UNCT initiated discussions with the Government to introduce competitive recruitment of staff under UNDP contracts, to reduce turnover of seconded national staff and to build institutional memory and capacity. However, the reaction from the Government was negative. In mid 2004, the Office has initiated action with the Government to allow UNDP to interview staff who are to be seconded and to determine their level of proficiency in English. The Government has reluctantly allowed this, however, efforts by the Office to reject unsuitable staff have not been successful.

Recommendation 3

In line with current efforts to improve the selection process of Government seconded staff, the Office in collaboration with the UNCT, should initiate discussions with the Government to competitively recruit staff under UNDP contracts

Implementation of RCA process

The RCA process as a management tool for performance evaluation and vacancy management has not been implemented by the Office, as in the past, the reaction by the Government to this proposal was negative.

Recommendation 4

The Office should ensure that the 2004 RCA process is carried out in 2005 by the Operations Manager for operations posts, and the Country Director for programme posts, in line with current efforts to improve the selection process of Government seconded staff.

Other Issues

None.

3. Knowledge-sharing and Implementation of PracticesNot Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4. Partnerships and Resource Mobilisation Not Assessed

4.1. Partnerships within the Development Community Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4.2. Resource Mobilisation Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

4.3. Government Relations Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

5. Support to UN Coordination — Not Assessed

5.1. Resident Coordinator Role — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

5.2. Common Services provide by the Office — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

6. Advocacy Services Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

7. Development Services — Partially Satisfactory

7.1. Project Design, Appraisal and Approval — Partially Satisfactory

Overview

There were a total of 11 projects approved in the year 2003 totaling $3m with nine projects reviewed by the local Programme Appraisal Committee (LPAC) in 2003 and two in 2002.

A review of four projects totaling $2.2m indicated that the logical framework linking the inputs, activities, outputs and outcomes of the SRF were prepared and supported by detailed budget of the inputs.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Broader Participation Required in the LPAC

In the year 2003, the Office LPAC functions can be further strengthened to be more effective in the project appraisal process. In the review of four ($2.2m) out of eleven projects that were approved in the year 2003, it was noted that:

- The LPAC consists mainly of UNDP personnel with the exception of one instance where there is participation by a FAO representative (for project DRK/03/008 - Propagation of Grass-feeding Animals)
- Two projects, DRK/03/004 - Enhanced capacity for GIS/RS- Phase II and DRK/03/002 - Strengthening IT & EMC in DPRK, have no documented inputs from partners independent of the project preparation process such as the UN agencies, donors, technical specialist or civil societies. Inputs from RBAP were of an informal nature and were not documented
- The final project document for DRK/03/002 - Strengthening IT & EMC approved on 6 January 2003 was not reviewed by LPAC. The LPAC had reviewed an initial draft project document six months prior.

As of 1 January 2004, project approval is no longer carried out at the Office level. All project approvals are being done at the HQs level (refer to Executive Board decision ref: DP/2004/14 dated 9 March 2004), so as to strengthen monitoring of the projects and to ensure that the resources allocated are used for humanitarian and development interventions.

Recommendation 5

The Office should ensure that the composition of the LPAC includes representatives or development partners who are independent of the immediate project preparation process such as UN Agencies, donors, technical specialists, civil societies to appraise the quality of project design. When the approval authority resumes at the Office level, all project documents should be reviewed by the LPAC prior to final approval by the Country Director.

Other Issues

None.

7.2. Project Monitoring — Partially Satisfactory

Overview

As at 31 December 2003, the Office has a total of 31 ongoing projects representing a total budget value of $12 m. The total expenditure for these ongoing projects in the year 2003 totalled $2 m of which 81% were incurred by ten projects. For the remaining 21 projects, 15 projects are due for completion in the year 2004 and six in the years 2005 and 2006.

The majority of the above on-going projects are executed by the Government (NEX) and by UNOPS, which represents 48% and 40%, respectively, of the total on-going project budget. There are no advances for the NEX projects and the Office undertakes procurement of goods and services on behalf of the NEX projects (refer to section 9 – Procurement). DEX projects represent 8% of the total on-going project budget and other UN agencies execution for the remaining 4%.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

DRK/97/001 – Inadequate Monitoring on Project Equipment Transfer to Government

In OAPR's opinion, proper monitoring of project equipment by the Office in the DPRK is crucial so as to be in line with the Executive Board's request (ref: DP/2004/14 dated 9 March 2004) for UNDP to ensure that resources could not be utilised for purposes not envisaged under the projects.

In the review of eight ongoing projects, it was noted that for project, DRK/97/001/01/99 - Environment and Industrial Pollution (NEX), the total disbursements for non-expendable equipment since the start of the project in 1997 was $660 k. Items procured for this project are transferred to the government on an annual basis.

A review of the documentation on the transfer of project equipment available in the Office indicates the following:

- The transfer of $299 k of non-expendable equipment for the year 2002 and 2003 was authorised by the Programme Officer, without the review of the CAP and approval of the Country Director; and
- There was no documentation available in the Office to support the transfer of $169 k (disbursed in the years 1997 and 1998) of non-expendable equipment.

Recommendation 6

The Office should ensure that disposal/transfer of project equipment to the government for items of asset value above $1,500 per item is properly reviewed by the CAP and approved by the Country Director. All documentation should be maintained on file.

Non-submission of Project Inventory List and Incomplete Inventory List Submitted

In the review of eight on-going projects, the following was noted:

- DRK/99/001 (AREP Support Project executed by UNOPS) - There is no project inventory list available in the Office. A total of $238 k was disbursed for non-expendable equipment.
- DRK/00/G35 (Biodiversity at Mount Myohyang executed by UNOPS) - A total of $178 k was disbursed by the project for non-expendable equipment, however, the project inventory list certified by the government reflects only $2 k of the project equipment. In the absence of the Programme Officer in charge of the project, the Office is unable to explain the difference of $176 k.

Recommendation 7

The Office should ensure that the executing agency (UNOPS) submits on an annual basis at minimum, a certified and complete project inventory list.

List of Equipment Procured

A list of equipment procured for the projects from 2001 to 2003 was submitted to HQs in 2003. The list was requested because the donor countries wanted to be informed of the manner in which their funds were utilized. This list detailed the equipment purchased by projects, the projects' objectives, purpose of the equipment, their cost etc. However, this list has yet to be updated subsequent to its preparation.

Recommendation 8

The Office should ensure that project personnel update the equipment list to facilitate the monitoring of equipment purchased, i.e. to conduct physical stock check and site visits, to ensure that programme resources are utilized for their intended purpose and the donor funds are being utilized appropriately and accounted for. The practice would also reduce the time required to update ad hoc reports requested by the donors.

Annual Progress Reports (APRs)

The annual progress report for the following two projects that represent 20% of the total project delivery for the year 2003 were not prepared by the Office:

- DRK/02/002/01/34 - Capacity Building for Development Cooperation (DEX), total project expenditure for 2003 of $281 k; and
- DRK/02/003/01/99 - Sweet Potato Cultivation and Processing (NEX), total project expenditure for 2003 of $172 k

The 2003 APR for project DRK/97/001/01/99 - Environment and Industrial Pollution (NEX) that was prepared by the General Bureau for Cooperation with International Organisation (GBCIO) does not provide details on the project progress towards project outputs/objectives.

Recommendation 9

The Office should ensure that Annual Progress Reports are prepared by the executing agency. The APR should report on the results in achieving the project objectives and should include statements on the progress towards the project outputs/objectives.

Unexplained Over-Expenditure Totaling $75k for Project DRK/02/004

Project DRK/02/004 - Cottage Industry PWTGC-Phase II is executed by UNIFEM and funded from TRAC ($86 k), SPPD ($75 k) and SDC ($60 k). The total project expenditure for the project as at 31 December 2003 totals $295 k against a total project budget of $220 k resulting in an over-expenditure of $75 k. Upon Office follow-up in March 2004, UNIFEM responded indicating that the over-expenditure will be further looked into. The last Office follow-up with UNIFEM was on 25 May 2004. Some two months after the last exchange of e-mails, the matter is still pending.

Recommendation 10

The Office need to further follow-up with UNIFEM to obtain clarifications on the over-expenditures totaling $75 k for project DRK/02/004 – Cottage Industry PWTGC-PhaseII.

Other Issues

None.

7.3. NEX/NGO audit process — Satisfactory

Overview

In December 2003, the Office submitted its NEX audit plan covering six projects with project expenditures totalling $752 k for the year 2003. All the NEX audit reports were submitted to OAPR close to the deadline of 30 April 2004.

As per prior years, the NEX audits were carried out by the national audit authority, Audit Group of the Ministry of Finance, in April 2004. The scope of the audit included a review of the project progress, assessment of the project internal control system and certification of the project CDR.

The OAPR NEX Evaluation Letter of July 2004 covering the NEX audit exercise for the year 2004 (2003 expenditure) rated the NEX audit exercise as satisfactory with a rating of 5 (on a scale of 1 to 5, 5 being fully satisfactory). In addition, the Office action plan for 2003 NEX audit results (covering expenditure for 2002) was evaluated satisfactory.

As at the time of the audit, the action plan to address the issues highlighted in the 2004 NEX audit reports (2003 expenditure) was still outstanding and the Office had indicated that the action plan would be prepared and submitted by the deadline of 15 September 2004.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

7.4. Country Office Support to Project Implementation — Partially Satisfactory

Overview

A total of $12 k in support services was recovered from UN agencies (FAO, UNFPA, UNOPS, ESCAP, WHO and UNESCO) and $9 k was recovered for GMS.

However, in the year 2003, there was no recovery for support services rendered for project implementation.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Recovery of Implementation Support Services

Based on estimates of support services provided to NEX/DEX projects in 2003, the approximate costs that could have been recovered by the Office for support services provided in the areas of Finance, Human Resources and Procurement are as follows:

Area	Level of Support Provided	Approximate Cost *
Finance	378 vouchers processed in 2003 for Government @ $8	3,024
Human Resources	9 SSA contracts issued in 2003 for projects @ $6.40	57
Procurement	10 purchase orders issued in 2003 for projects @ $45.80	458
	Total	3,539

** Based on established rates in the Universal Price List effective January 2003 for DPRK (low cost category)*

Recommendation 11

The Office should ensure that costs of rendering support services to NEX/DEX projects is fully recovered on the basis of the Universal Price List as per Policy on Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.

Other Issues

None.

7.5. Management of Non-Core Contributions — Satisfactory

Overview

As at July 2004, there are nine trust fund and cost sharing agreements totaling $2m signed by the Office with donors contributing to projects that were on-going as at 31 December 2003.

A review of four cost sharing and trust fund agreements totaling $1.3m indicated that:

- A 3% COA for the administration of these funds (now called GMS) is built into the agreements;
- The terms and conditions of the agreements are consistent with UNDP practices; and
- The agreements were duly signed by authorised officials.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

8. Human Resources Administration — Satisfactory

8.1. Office Staff — Satisfactory

Overview

The Operations Manager is responsible for Human Resources administration.

As at December 2003, there was a total of 22 local office staff. There are eleven staff in Programme and an equal number in Operations. There are 19 General Services staff and three National Officers. All three National Officers are in the Programme Section. The Office staff are funded as follows:

Funding	No. of Staff
DPVC	10
PROJECT	6
DPXB	2
GOVT (1)	2
GCCC (2)	1
RC	1
Total	**22**

(1) The staff's salary is fully paid by the Government.
(2) The staff is a driver who is funded from a Government Cash Counterpart Contribution (GCCC) paid by the Government in 2002. The GCCC is now reflected as a project in Atlas.

All national staff are seconded from the Government and are not recruited with UNDP contracts. Staff are seconded from three Government bodies, i.e. the Ministry of Foreign Trade, the Ministry of Foreign Affairs and the General Bureau for Affairs with Diplomatic Missions. Seconded staff are assigned and can be recalled entirely at the discretion of the Government. Hence, the Office has no control over the hiring of staff and the length of their service. As at August 2004, eight staff have more than five years service with UNDP, with the two longest serving staff having almost nine years service. The remaining 14 staff have less than five years service.

There is no UN salary scale in DPRK. The cost of the monthly national staff salaries is paid directly to the respective Government bodies based on the Government salary scale. In 2003, the Government had two salary increases in July 2003 and October 2003, amounting to a total increase of 30%, which was agreed by the RR/RC on behalf of all UN Agencies and international NGOs. The salary per month for local staff are as follows - $310 for office staff, $273 for drivers/gardeners and $210 for cleaners. The average monthly salary for the 22 staff is approximately $285 per staff.

Staff are also entitled to meal allowances of Euro100 per month ($120 per month), which are paid directly to the staff, and not to the Government. Their annual leave entitlement is 14 days.

No APP has been formed given that local staff are not recruited or promoted by the Office.

Refer also to Section 2.2 – Management of People.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

8.2. Project / Other Staff — Satisfactory

Overview

As at December 2003, there were three international UNV project staff hired by the Office consisting of a Forestry Specialist, a Procurement Specialist and a Finance Specialist. In 2003, there was also an UNV IT Specialist hired by the project for a six-month period in 2003 (excludes local project staff seconded by the Government and covered under Section 8.1 – Office Staff). Terms of Reference of positions were sent to UNV Bonn for identification of candidates. Potential candidates were short-listed and selected by the Office and Government. All UNVs are holding contracts issued by UNV Bonn and are paid the Volunteer Living Allowance.

In 2003, 25 SSAs were issued to 17 individuals. 17 contracts related to International Consultants and eight contracts were issued for Temporary Assistants. Nine SSAs related to projects, 12 contracts were for the office and four contracts were for staffing of the UN Dispensary.

The recruitment process for international consultants was transparent and the Office used Headquarters, SURF and other UN Agencies to source for candidates. Selection was based on the qualifications and experience of the consultants.

Due to Government restrictions, no national staff can be recruited directly by the Office. Recruitment for temporary assistance positions are from qualified persons already located in DPRK, i.e. family members of the international community (UN Agencies, Embassies and NGOs). In 2001, the UNCT established a Local SSA Salary Scale, which was updated in 2004 based on the requisite qualifications and job functions. The scale is denominated in Euros and will be reviewed annually by the UNCT.

In 2003, no SCs or ALDs were issued during the year to project staff, international consultants or temporary assistance.

Refer also to Section 2.2 – Management of People.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Documentation and Contract Management

From a review of nine out of 17 contracts issued for consultants, the recruitment process was transparent. Even though the documentation to support the transparency of the recruitment process and awarding of contracts was available in the project files, the documentation was not complete in the Human Resources files maintained by the Operations Manager.

Recommendation 12

The Office should ensure that a snapshot of the recruitment process and employment history of the staff hired, are available in the Human Resources files. At a minimum, the Operations Manager in collaboration with the project staff should ensure that the following documentation of personnel records is available, before issuance of contracts:

a) Correspondence/summary of the method of sourcing of candidates, the number of CVs obtained, the evaluation criteria for short-listing of candidates and the basis for selecting the successful candidate;
b) A detailed Terms of Reference stating the required skills, qualifications, output and timeframes for delivery;
c) The CVs of selected candidates to facilitate an independent check of the qualifications of staff with the agreed remuneration; and
d) Documentation of reasons for waiver of competitive process, where required expertise is limited or where there are justifiable reasons to recruit a particular candidate.

Other Issues

None.

8.3. Consultants and Temporary Assistance — Satisfactory

Overview

Refer to Section 8.2 – Project/Other Staff.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

9. Procurement, Inventory and Office Premises Satisfactory

Overview

Procurement

The majority of procurement carried out by the Office is for Project procurement. In 2003, 11 Purchase Orders (POs) amounting to $96 k were raised for the Office and 13 POs amounting to $210 k were raised for Projects. UNDP entered into seven contracts amounting to $132 k in 2003. The Office did not procure on behalf of any Agencies in 2003. The demographics of 2003 procurement are detailed below:

Purchases	No of POs
$ 1 to $9,999	13
$ 10,000 to $ 19,999	9
$ 20,000 and 99,999	1
$ 100,000 and above	1

The breakdown of the POs by their execution modality is detailed in the table below:

Execution Modality / Body	Amount	Percentage
UNDP	$96 k	31%
NEX	$180 k	59%
DEX	$15 k	5%
UNOPS	$15 k	5%
Total	$306 k	100%

The CAP met six times in 2003 and the total value of procurement evaluated by the Committee amounted to $240 k. Purchases above $30 k were reviewed by CAP and those above $100 k were sent to ACP/NY for review. Even though CAP is only required to look into procurement above $30 k, there were instances where the Committee had reviewed certain procurement below $30 k to enhance their transparency and accountability, particularly for technical procurement.

The CAP has three members from Programme and a member from Operations. The chairperson of the CAP informed that when necessary, technical experts and representation from the Agencies have been invited to participate in the CAP.

We have reviewed seven POs and three contracts for 2003, which encompassed 71% and 46% of the total value of POs and contracts respectively. From our review, the procurement process is satisfactory.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Use of IAPSO in Procurement

It is not the Office's practice to include the prices for goods such as vehicles, computers etc. from IAPSO in its competitive selection. This is due to the non-availability of internet access prior to September 2003 and based on experience, the prices of goods and delivery time, if they were to be purchased from IAPSO, were not as competitive and efficient as buying from Beijing. However, since the availability of internet access, the Office has made one purchase from IAPSO.

Recommendation 13

The Office should refer to IAPSO for purchases of goods such as vehicles, computers, etc. for competitive comparison of prices. Obtaining a price quotation from IAPSO will meet the requirement for international solicitation, which is appropriate for all contracts exceeding $100 k. IAPSO also provides benchmark prices to compare with local prices before making any final procurement decision.

Other Issues

The performance of suppliers are reviewed informally when their bids are being evaluated and from the quality of goods and services received. No formal procedure is in place for the evaluation and blacklisting of suppliers that have consistently supplied goods of inferior quality and have not met delivery deadlines, etc.

The Office should establish a formal system for evaluating supplier performance to enhance its existing controls over the monitoring and evaluation of suppliers' performance. Performance measures should include amongst others, the quality of goods received, delivery time, customer service and accuracy of invoices issued. The results of the evaluation should be shared with suppliers so that goals can be set and underperformance improved.

10. Financial Resources — Satisfactory

10.1 Commitments, Disbursements and Receipts — Satisfactory

Overview

In 2003, the Finance unit consisted of a Finance Officer who reported directly to the Operations Manager. In 2004, the Registry Assistant's job functions have been changed to be the Finance Assistant. Her role is to assist the Finance Officer in daily financial matters. In 2003, the unit processed 1,751 vouchers, which translates to an average of 5 vouchers processed per day. Out of the 1,751 vouchers processed, 28% were related to UNDP, 50% to UN Agencies and 22% to Government executed projects.

The controls in place for both the disbursement and receipt processes are satisfactory.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

Receiving Records

Goods procured which are delivered to the project site, are received either by the Government for subsequent distribution to the various affected locations or by the appropriate Programme Officers before distributing to the Government. The relevant Programme Officers are required to be at the location where the receiving takes place and prepare a receiving report. Normally, the Government will acknowledge receipt in various forms such as by issuing formal acknowledgement on their official letterhead with official stamps, issuance of Goods Receipt Notes or signing on the Delivery Note, etc. These receiving documents from the Government are the key evidence that the goods procured have been satisfactorily received. Therefore it is important to ascertain that these acknowledgements are given by an authorized Government personnel.

Two Cash Disbursement Vouchers (CDVs) for procurement amounting to $40 k from the 23 samples reviewed were not supported by documented acknowledgement of receipt by the Government when the CDVs were submitted for approval. Their details are as follows:

Date	CDV No	Description	Amount
5 January 2003	8030100030	Computer Equipment	$25,124
28 February 2003	8030200039	Potato Processing & Packing Equipment	$15,092

Additionally, where receiving records are available, it is not possible to verify the signatures/official stamps of the Government recipients as no authorised specimen signature list has been provided by the Government.

Without these receiving documents, the approvers are not able to determine if the goods/services procured have been satisfactorily received and in accordance to specification when approving these disbursements.

Recommendation 14

The Finance Officer should ensure that:

a) Documented acknowledgement of receipt from the Government is consistently attached to all Vouchers for processing of payment; and

b) The documented acknowledgement of receipt from the Government is verified against the authorised specimen signature list/official stamp list provided by the Government (which has been requested by the Office at the time of the audit).

Other Issues

None.

10.2. Banking Operations and Cash Management — Satisfactory

Overview

The Office maintains the following bank accounts:

Account Type	Name / Location	Account No
Zero Balance Account (USD)	UBS AG, Geneva	240-C0250861.0
Korean Won Convertible	Foreign Trade Bank of DPRK, Pyongyang	008825101
Korean Won Non-Convertible	Foreign Trade Bank of DPRK, Pyongyang	076250
Euro	Foreign Trade Bank of DPRK, Pyongyang	08825112

No new bank account was opened or closed in 2003. The Euro account was the most active bank account in 2003. It is used for most of the Office's disbursements with the exception of communications fee, salaries, Koryo Airline tickets which are paid through the Korean Won Convertible Account. Rental, maintenance and electricity are paid through the Korean Won Non-Convertible GLOC Account. The UBS account is used for disbursement, which requires electronic transfer such as procurement, salaries of international personnel, foreign consultants etc.

In 2003, the Office had an imprest level of $165 k. The imprest level was increased to $250 k since 1st March 2004 based on the average amount replenished by Treasury in 2003. Cash balances are being monitored daily and cash is replenished based on expected cash requirements. Cash management is satisfactory. Cashbook balances were higher in December 2003 as a precautionary measure due to Atlas roll out in January 2004.

Bank reconciliations in 2003 were satisfactorily done. The designated safe custodian has been informed of her responsibilities in writing.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

None.

10.3. Monitoring Financial Resources Satisfactory

Overview

Programme Financial Resources

For the year 2003, no advances were given for NEX projects. Request for payments are not initiated from FIM, payments are done directly through WinFOAS.

For the year 2004, the authorized spending limit (ASL) for the Office is $2 m. As at July 2004, the total project expenditure totaled $1 m, i.e. 50% of the ASL. A total of $1.7 m was classified as hard pipeline and a review indicated that this classification was reasonable.

As at July 2004, the total amount that is receivable from donor amounted to $207 k and represented contribution due from NEAFF (Northeast Asian Forest Forum) for project DRK/01/A05 – AREP NEAFF Support to Forestry Rehabilitation. This receivable amount is not yet due for payment.

Office Administrative Resources

The projected DPXB reserve as at December 2004 is estimated at $128 k and is sufficient for 10 months operations based on the estimated DPXB expenditure for the year 2003.

For the year 2003, cost for services shared with UNFPA such as for the receptionist, registry, IT support are not recovered from UNFPA. In January 2004, the Office entered into an agreement for the recovery of common services from UNFPA. A review of the basis for recovery of costs related to common services indicated that it was satisfactory.

GLOC

As at May 2004, a total of $105k of GLOC is outstanding. The Office had numerous exchange of correspondence with the Government and had made sufficient follow-up on the payment of the amount receivable.

Corporate Issues

None.

Good Practices

None.

Areas Requiring Action

None.

Other Issues

From a sample review of on-going projects it was noted that the CDR for the year 2003 is uncertified for the DEX project – DRK/02/002/ - Capacity Building for Development Cooperation. The Office should ensure that the CDR is certified.

As at 31 December 2003, there were two ARL accounts with outstanding balances. The total balance of $9k in credit represents $2k in debit for Petrol ARL and $11k in credit for the UN Dispensary ARL. The Office explained that the credit balance in the UN Dispensary ARL pertains to surplus contributions for the UN Dispensary operations that will be refunded to the UN agencies.

11. General Administration — Not Assessed

11.1. Vehicles — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.2. Travel, Shipping and Hospitality — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.3. Security — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.4. Registry/Records — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

11.5. Housing — Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

12. IT and Communications Not Assessed

Overview

Not Assessed

Corporate Issues

Not Assessed

Good Practices

Not Assessed

Areas Requiring Action

Not Assessed

Other Issues

Not Assessed

V. Summary of Recommendations

No.	Recommendation	Management Comments
1	The Office should not enter into the Grant Agreement if it is unable to secure long term funding to increase office capacity that would permit to satisfactorily deliver the requirements of the Programme. The Office should: a) Prepare a feasibility study of the resources needed to fund the additional office capacity to deliver the GFATM programme in the long run; and b) Seek advice/support from RBAP on options available (other than TRAC) to secure funding as per the feasibility study, for the entire life cycle of the programme and not just for the first year.	

507

No.	Recommendation	Management Comments
2	The Office should: a) Seek advice/support from RBAP on alternative options to increase extra-budgetary resources to fund these project staff performing office functions, until such time that the Office is able to generate it's own extra-budgetary resources; b) Ensure that staff performing Office functions are charged to a management project (extra budgetary resources) in Atlas instead of a development project; and that the costs of support services provided by these staff to projects is recovered in accordance with the Policy of Cost Recovery from Regular and Other Resources issued by BoM effective January 2004; c) Revisit its efforts to recruit JPOs and fully funded UNVs to expand the existing capacity, especially once the ARR-Programme post is filled and there is additional supervisory capacity in place.	
3	In line with current efforts to improve the selection process of Government seconded staff, the Office in collaboration with the UNCT, should initiate discussions with the Government to competitively recruit staff under UNDP contracts	
4	The Office should ensure that the 2004 RCA process is carried out in 2005 by the Operations Manager for operations posts, and the Country Director for programme posts, in line with current efforts to improve the selection process of Government seconded staff.	

No.	Recommendation	Management Comments
5	The Office should ensure that the composition of the LPAC includes representatives or development partners who are independent of the immediate project preparation process such as UN Agencies, donors, technical specialists, civil societies to appraise the quality of project design. When the approval authority resumes at the Office level, all project documents should be reviewed by the LPAC prior to final approval by the Country Director.	
6	The Office should ensure that disposal/transfer of project equipment to the government for items of asset value above $1,500 per item is properly reviewed by the CAP and approved by the Country Director. All documentation should be maintained on file.	
7	The Office should ensure that the executing agency (UNOPS) submits on an annual basis at minimum, a certified and complete project inventory.	
8	The Office should ensure that project personnel update the equipment list to facilitate the monitoring of equipment purchased, i.e. to conduct physical stock check and site visits, to ensure that programme resources are utilized for their intended purpose and the donor funds are being utilized appropriately and accounted for. The practice would also reduce the time required to update ad hoc reports requested by the donors.	
9	The Office should ensure that Annual Progress Reports are prepared by the executing agency. The APR should report on the results in achieving the project objectives and should include statements on the progress towards the project outputs/objectives.	

No.	Recommendation	Management Comments
10	The Office need to further follow-up with UNIFEM to obtain clarifications on the over-expenditures totaling $75 k for project DRK/02/004 – Cottage Industry PWTGC-PhaseII.	
11	The Office should ensure that costs of rendering support services to NEX/DEX projects is fully recovered on the basis of the Universal Price List as per Policy on Cost Recovery from Regular and Other Resources issued by BoM effective January 2004.	

No.	Recommendation	Management Comments
12	The Office should ensure that a snapshot of the recruitment process and employment history of the staff hired, are available in the Human Resources files. At a minimum, the Operations Manager in collaboration with the project staff should ensure that the following documentation of personnel records is available, before issuance of contracts: a) Correspondence/summary of the method of sourcing of candidates, the number of CVs obtained, the evaluation criteria for short-listing of candidates and the basis for selecting the successful candidate; b) A detailed Terms of Reference stating the required skills, qualifications, output and timeframes for delivery; c) The CVs of selected candidates to facilitate an independent check of the qualifications of staff with the agreed remuneration; and d) Documentation of reasons for waiver of competitive process, where required expertise is limited or where there are justifiable reasons to recruit a particular candidate.	
13	The Office should refer to IAPSO for purchases of goods such as vehicles, computers, etc. for competitive comparison of prices. Obtaining a price quotation from IAPSO will meet the requirement for international solicitation, which is appropriate for all contracts exceeding $100 k. IAPSO also provides benchmark prices to compare with local prices before making any final procurement decision.	

No.	Recommendation	Management Comments
14	The Finance Officer should ensure that: a) Documented acknowledgement of receipt from the Government is consistently attached to all Vouchers for processing of payment; and b) The documented acknowledgement of receipt from the Government is verified against the authorised specimen signature list/official stamp list provided by the Government (which has been requested by the Office at the time of the audit).	

512

VI. Annexes

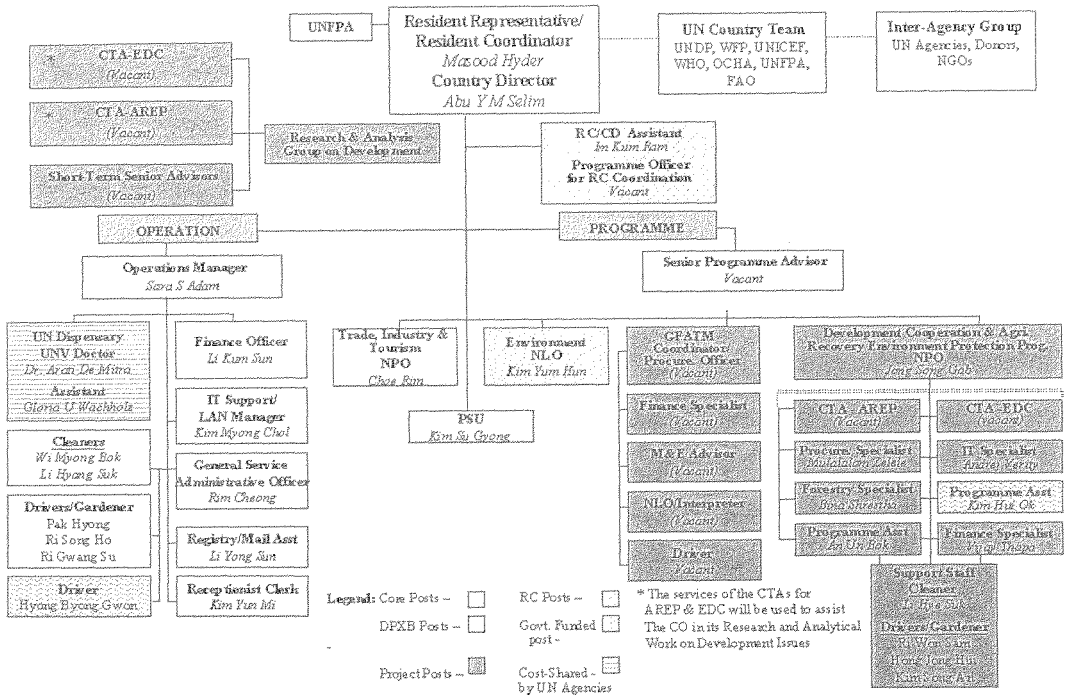
ANNEX I ORGANISATION CHART

ANNEX II PERFORMANCE DATA

ANNEX III DEFINITIONS OF STANDARD AUDIT RATINGS

UNDP DPRK - ORGANIGRAM

December 2003



Performance Data

Page

1. PROGRAMME

1.1 Programme Resources
1.2. Allocation of Programme Resources By Year
1.3. Programme Delivery/Expenditure
1.4. Allocation of Programme Resources By Theme
1.5. On-Going Projects
1.6. Execution of On-Going Projects
1.7. Modality of NEX Delivery
1.8. Audit of NEX Projects

2. OPERATIONS

2.1 Personnel Status
2.2. Office Costs
2.3. Volume of Vouchers
2.4. Volume of Purchase Orders
2.5. Local Contracts Committee
2.6. Inventory of Equipment and Assets

PROGRAMME

1.1. Programme Resources

Programming Period From: 2001 To: 2004

	Amount in $000s
TRAC	10,658*
Cost Sharing	854
Other (SPR)	3,568
Total	**15,080**

* Includes carry-over of $2,823 k.

1.2. Allocation of Programme Resources By Year

	Amount in $000s			
	Year 2000	Year 2001	Year 2002	Year 2003
IPF / TRAC	3,045	1,613	1,661	1,490
Cost Sharing	876	448	115	87
Other (SPR)	954	884	1,872	478
Total	4,875	2,945	3,648	2,055

1.3. Programme Delivery/Expenditure

	Amount in $000s		
	Year 2001	Year 2002	Year 2003
IPF / TRAC	666	686	1,587
Cost Sharing	328		89
Other (SPR)	564	1,149	582
Total	**1,558**	**1,835**	**2,258**

1.4. Allocation of Programme Resources by Theme

	Total Amount $000s	% of total
Governance	1,003	8%
Poverty	3,574	30%
Environment	5,849	48%
Gender	220	2%
Special Dev. Situations	657	5%
Other	802	7%
Total	**12,105**	**100%**

1.5. ON-GOING PROJECTS As 31/12/2003
OF

Total Number	Total Value $000s	Average Size/ Project
31	12,105	390

1.6. EXECUTION OF ON-GOING PROJECTS As 31/12/2003
of

	Total Amount $000s	% of total
UN Agencies (excluding UNOPS)	467	4%
UNOPS	4,877	40%
NEX	5,788	48%
NGOs	0	0%
DEX	972	8%
Other	0	0%
Total	12,105	100%

1.7. MODALITY OF NEX DELIVERY As 31/12/2003
of

	Total Value $000s	Total Number of Vouchers
Direct Payments	668	210
Advance Payments	0	0
Total	**668**	**210**

1.8. AUDIT OF NEX PROJECTS As 31/12/2003
of

	Total Number	Total Amount $000s
NEX projects due for national audit	5	604
NEX projects audited and audit report received	5	604
Compliance with audit requirement (%)	**100%**	**100%**

2. OPERATIONS

2.1. PERSONNEL STATUS

As of 31/12/2003

	Authorized. Posts			Staffed Posts		
	Program.	Admin. & Fin.	Total Personnel	Program.	Admin. & Fin.	Total Personnel
International Staff	1	0	1	2	0	2
JPOs	1	0	1	0	0	0
Local Staff						
National Officers	1	0	1	3	0	3
General Services	1	11	12	2	17	19
Sub-total Local Staff	2	11	13	5	17	22
TOTAL STAFF	4	11	15	7	17	24
ALDs	0	1	1	0	0	0
SSAs (average during the audit period)					1	1
Service Contracts	0	0	0	0	0	0
Total Personnel	4	12	16	7	18	25

Note 1: Of the 22 local staff, 7 are funded by projects and 2 are by the Government.

2.2. OFFICE COSTS

	Year 2002 $000s		Year 2003 $000s		Variance In %	
	Allotment	Exp. as of 31/12/02	Allotment	Exp. as of 31/12/03	Allotment Incr./(decr.)	Expendit. Incr./(decr.)
Core Budget (DPVC)						
Personnel-related (code A)	25	25	30	30	20	20
Other	235	129	259	178	10	38
Sub-total Core (DPVC)	260	154	289	208	11	35
Extra-Budgetary (DPXB)						
Personnel-related (code A)	6	6	7	6	17	0
Other	80	12	37	36	(54)	200
Sub-total (DPXB)	86	18	44	43	(49)	139
Other	82	46	98	38	20	(17)
Total	428	218	431	289	1	33

2.3. VOLUME OF VOUCHERS As of 31/12/2003
(monthly average over the past 12 months)

	Total Number	Total Amount $000s
UNDP	41	32
UN Agencies	74	82
Government	32	82
Total	**147**	**196**

2.4. VOLUME OF PURCHASE ORDERS In the 12 months from January 2003

	Total Number of Purchase Orders	Total Value of Purchase Orders $000s
Purchase Orders	25	306

2.5. LOCAL CONTRACTS COMMITTEE (LCC) In the 12 months from January 2003
(APPLIES TO PROCUREMENTS > US$30,000)

	Total Number of Meetings	Total Value Processed $000s
Activity in the last 12 months	6	240

2.6. INVENTORY OF EQUIPMENT AND ASSETS As of 31/12/2003

	Amount in $000s
Office Furniture & Equipment	8,802
Computer Equipment	171,461
Vehicles	106,484
Equipment in Custody	
Total	**286,749**

DEFINITIONS OF STANDARD AUDIT RATINGS

The following standard audit ratings have been defined so that management can place in context the opinions given in internal audit reports.

Definition of Performance:

Within the operational audit context, performance refers to the economy, efficiency, and effectiveness of operations under management's control. Operational audits assess the extent to which resources are acquired and utilized with due regard to economy and efficiency and whether management has put in place mechanisms to accurately monitor and assess whether programmes are meeting planned objectives. Operational audits do not report on the achievement of results.

Performance also refers to the manner is which activities are conducted – i.e. whether they are conducted in accordance with UNDP values. UNDP values encompass the notions of prudence and probity, as well as the necessity of taking acceptable risks.

Standard Rating	Definition
Satisfactory	In general, controls were in place to ensure that operations are economic, efficient, and effective; and that activities are conducted with due regard to UNDP values. Any weaknesses identified were not significant enough to compromise the overall performance and the control environment. The range of corrective actions required by management is moderate.
Partially Satisfactory	The majority of key controls were applied. However, some significant control weaknesses were identified. Timely corrective action by management is required to correct these weaknesses.
Deficient	Control weaknesses identified were widespread or were significant enough to have a negative impact on performance. Management needs to take immediate corrective action to improve the control environment.

Atlas OnDemand Training

Learning by User Role

Operations Manager - OnDemand Curriculum

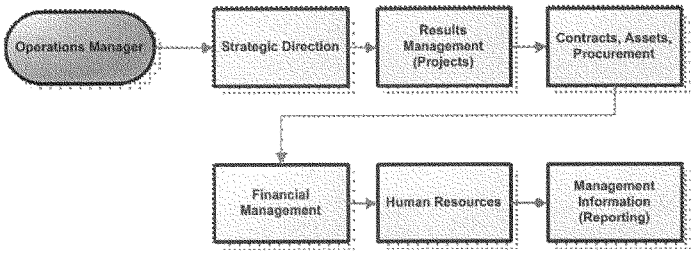
The Operations Manager acts as an advisor to Senior Management on all aspects of CO management and operations. The C human resources management, efficient procurement and logistical services, and ICT and consistency with UNDP rules and services delivery to CO, UNDP programmes and projects and UN common services. The OM sets policies and methods to m

Key Functions Summary

- Ensuring strategic direction of operations
- Financial resources management and supervision of the Finance team
- Human Resources Management and supervision of the HR team
- Efficient procurement and logistical services and supervision of the Procurement team
- Information and communication management and supervision of ICT team
- Common services organization and management, establishment of partnerships with other UN Agencies

Learning Curriculum by Key Function

Overview Diagram of Suggested Learning Flow



Below are suggested mini-curriculums by Key Function. Each Key Function has two components, OnDemand and Key Docu be read first followed by the related OnDemand Topic. In reality, many Operation Managers come with specialized knowledge Operations Manager may only need to read the Lesson Overview in the Concept Pane of OnDemand and not go to the Atlas discretion of each individual Operations Manager.

- Ensuring strategic direction of operations (Background Information)

S.no	OnDemand	Key Documents and Links
1.	Atlas Concepts Presentation	Atlas Overview (ppt)
		Online User Guides Prescriptive Content
		Internal Control Framework (doc)

United Nations Development Programme

North Korea

UNDP and DPR Korea

UNDP began operations in the Democratic People's Republic of Korea (DPRK) in 1981, as the first UN programme with a resident presence in the country. While UNDP's operations in DPRK have always been modest (roughly US$3 million per year in programme expenditures and less than 10 international staff and consultants), UNDP's on-the-ground presence helped facilitate the international response to the famines of the 1990s, and to expose DPRK to the standards and norms of the international community. In recent years UNDP's focus has been on food production and economic and environmental management, largely through training courses, workshops and study tours.

In January 2007, amidst allegations of irregularities in the UNDP programme in DPRK, the UN Secretary General called for an independent outside audit of all UN Fund and Programmes in the country. UNDP welcomed this call, and has fully cooperated with external auditors. Also in January, the UNDP Executive Board mandated several changes in UNDP's programme and implementation modalities in DPRK. In early March, when it became clear that the DPRK authorities disagreed with these mandated changes, UNDP suspended operations in the country. It withdrew its international staff a short time later, after securing all of its documentation for audit purposes. Any decisions on the future of UNDP operations in DPRK will be taken by the UNDP Executive Board.

The links below provide an account of the situation since it has unfolded since January 2007. For additional information, please contact the UNDP Press Office at UNDP-newsroom@undp.org.

Latest

UNDP briefing for the United States Senate on DPRK
[24/01/08] more...

UNDP statement on Senate investigation into UNDP operations in DPRK
[23/01/08] more...

Permanent Subcommittee on Investigations
UNDP Report - FN 20

Report of the Board of Auditors on the Special audit requested by the ACABQ into activities of UNDP, UNFPA, UNOPS and UNICEF in the Democratic People's Republic of Korea (DPRK)

31 May 2007

Permanent Subcommittee on Investigations
UNDP Report - FN 22

Table of Contents

		Page
1.	Background	3
2.	Scope of work	3
3.	Major findings of the review	6
4.	Detailed findings	6
4.1	Staff hiring	6
4.2	Foreign currency transactions	16
4.3	Access to projects	22
5.	Review of internal audit reports	27
6.	Conclusion	28

Annexes:
Annex I: ACABQ letter dated 9 February 2007
Annex II: Letter from Controller dated 25 January 2007
Annex III: Letter from Chairman of BoA dated 22 February 2007
Annex IV: Letter from Chairman of AOC dated 2 March 2007
Annex V: Chronological record of payments to local staff and suppliers in foreign currency
Annex VI: Sample of payments from Euro account prepared by UNDP
Annex VII: Project listing for UNDP, UNFPA and UNOPS
Annex VIII: Project listing for UNICEF
Annex IX: Internal audit reports status: UNDP, UNFPA, UNICEF

1. Background

1. On 9 February 2007, pursuant to Article VII of the Financial Regulations and Rules of the United Nations, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) requested the Board of Auditors (letter attached as annex I) to carry out a special audit of the operations of the United Nations organisations in the Democratic People's Republic of Korea (DPRK), including the United Nations funds and programmes which fall within the Board's mandate and to report its findings to the ACABQ.

2. In the ACABQ's request to the Board of Auditors, it drew the Board's attention to a letter dated 25 January 2007 (refer annex II) from the Controller of the United Nations, on behalf of the Secretary-General on the same topic, wherein the Controller indicated that the scope of the specific examination focus on past and current compliance with the applicable Financial Regulations and Rules, accountability frameworks and other directives as well as to ensure that money expended in DPRK went to intended recipients. The Controller's letter further explained that the three focus areas to be reviewed should include foreign currency transactions, staff hiring, access to reviewing local projects and their outputs, including direct payment for National Execution (NEX) projects.

3. In the confirmation of the Chairman of the Board of Auditors addressed to the ACABQ dated 22 February 2007 (English translation attached as Annex III), the Board wrote that the audit will include a preliminary review in New York of the operations of UNDP, UNFPA, UNOPS and UNICEF, and that the purpose of the preliminary review, the outcome of which will be addressed to the ACABQ for further consideration, will be the drafting of a detailed audit scope.

4. In further correspondence from the Audit Operations Committee (AOC) addressed to the ACABQ dated 2 March 2007 (Annex IV), the Chairman of the AOC stated that the scope of this audit covers the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Office for Project Services (UNOPS) and the United Nations Children's Fund (UNICEF), and the Board will report to the ACABQ and management any preliminary findings, the Board's detailed audit plan and any procedures for the on-site phase for ACABQ consideration. This letter further requested a *note verbale* to be issued to the DPRK authorities for assistance with travel arrangements.

5. This report constitutes the result of our work in terms of the above work-plan.

2. Scope of work

6. This review was conducted in terms of the common auditing standards of the Panel of External Auditors of the United Nations, the specialised agencies and the International Atomic Energy Agency and relevant International Standards of Auditing.

7. In accordance with the ACABQ's request, the scope of work for this preliminary phase was limited to these four entities, namely:

(a) United Nations Development Programme (UNDP);
(b) United Nations Population Fund (UNFPA);
(c) United Nations Office for Project Services (UNOPS), and
(d) United Nations Children's Fund (UNICEF).

8. The Board noted that in addition to these four entities, other UN entities and specialised agencies were also active in DPRK, which were not within the scope of this audit engagement.

9. The work focused on the five year period from 1 January 2002 to 31 December 2006.

10. The audit team was comprised with members representing the three members of the Board of Auditors, and was led by the Auditor General of South Africa, in his role as lead auditor of UNDP. After acceptance of the special audit engagement by the Chairman of the Board of Auditors dated 22 February 2007, the team was constituted, and the preliminary audit commenced in New York on 19 March 2007.

11. The scope of the work as contained in the ACABQ request (Annex I) focused on foreign currency transactions, staff hiring and access to reviewing local projects. The work undertaken by the team is described as:

(a) Gathering and examining documents and reports;
(b) Reviewing background papers;
(c) Interviewing personnel; and
(d) Verifying evidence of findings previously raised by the internal audit departments of the various entities.

12. This special audit in the three focus areas does not constitute a full-scope country office audit, which normally covers a number of other components, based on the Board's risk assessment in a financial statement audit. Because of the limited scope of this assignment, the Board does not express any opinion on the financial results of any of the DPRK activities of the four entities.

13. In complying with the mandate of the Board, the letter of request (Annex I), and the timing of the engagement, certain aspects were not covered as described below:

(a) Any work undertaken by the Board is conducted in accordance with Article VII of the Financial Regulations and Rules of the United Nations, which limits the work of the external auditor to audit matters, and does not extend to investigation or evaluation;

(b) No complete set of financial statements of the UN-related DPRK activities were submitted for audit as separate country office financial statements are not normally prepared;
(c) The audit was limited to personnel and documents made available in New York;
(d) No on-site validation of results was performed during this phase;
(e) The audit work was based on sampling, which may not detect any and all misstatements in the accounting records;
(f) The Board did not test the validity of payments to ultimate recipients as it does not have access to financial records outside the UN system;
(g) While extensive documents were gathered and made available to the Board, only certain substantive audit procedures were focused on during this preliminary phase; and
(h) The Board has no powers or mandate of inspection, discovery or subpoena, or specific responsibility to review implementation of Security Council resolution 1718.

14. The Board's work was limited to the scope of requests of the ACABQ. Consequently, certain other matters which have come to the Board's attention were not covered during this phase of the special audit. These are:

(a) The evaluation of qualifications, skills, duties and performance of local staff;
(b) The control and rules over the activities of local staff;
(c) Application of the rules of DSA percentage for local staff;
(d) The level of prices paid for procurement of goods and services and the rate of exchange applied;
(e) The occurrence of alleged counterfeit currency in the UNDP country office (para. 72);
(f) The assignment of responsibility for non-compliance (accountability); and
(g) The consistency between country office targets and contribution estimates, and UNDP headquarters records.

15. All four entities cooperated with the Board, making documents, personnel and explanations available as requested.

4. Major findings of the review

16. The Board has reached the following conclusions in respect of the three focus areas vis-à-vis staff hiring, foreign currency transactions and access to local projects.

17. The Board's major findings are that:

(a) In respect of local staff hiring, personnel were hired by UNDP, UNFPA and UNICEF through a government agency of DPRK, contrary to relevant instructions and procedures (paras. 22, 24, 27, 28, 35, 43, 45 and 47);

(b) In respect of foreign currency transactions, local payments made in foreign currencies were without requisite authority in the case of UNDP, UNFPA and UNOPS (paras. 52, 58, 59, 60, 69 and 71); and
(c) In respect of free access to local projects, the Board obtained evidence that project visits had taken place, but were done under the supervision of the DPRK authorities, except for one reported project in UNICEF.

18. The Board has during this preliminary phase satisfactorily concluded on the three focus areas. Accordingly, no further audit procedures have been suggested for the Board to perform.

19. The Board further noted that:

(a) there were different procedures practiced among the four entities in respect of all three focus areas; and
(b) there were differences in the treatment of payments throughout the period within each entity.

20. In common with UNDP's operations in many countries, UNDP provided administrative support, which include processing of payments and record-keeping on behalf of UNFPA and UNOPS in DPRK (as well as other entities). Accordingly, some of the Board's observations were common to UNDP, UNFPA and UNOPS.

4. Detailed findings

4.1 Staff hiring

21. The audit objective of this focus area is to determine whether the entities employed local personnel in accordance with the relevant United Nations Regulations, Rules and procedures.

22. Three of the entities (UNDP, UNFPA and UNICEF) employed local personnel who were selected, nominated and appointed by the Government of DPRK. UNOPS did not maintain a local office in DPRK and did not directly employ any local staff in DPRK. Table 2 shows the local personnel statistics by entity.

Table 1
Local staff personnel (and international staff summary)

Posts	UNDP * (28 February 2007)	UNFPA (23 March 2007)	UNICEF (23 March 2007)
Programme Professional Staff	4 National Programme Officers 1 Programme Support Unit	1 National Programme Officer	1 WES Professional ** 1 Health Professional 1 Education Professional 2 Nutrition Professionals
Secretary	1 Secretary	1 Secretary	1 Secretary
Administrative Staff	2 Administrative Officers 1 Administrative Assistant		1 Administrative Officer 1 Supply Assistant 1 Admin Clerk/ Receptionist
IT Staff	1 LAN Manager		1 IT Officer
Finance Staff	1 Finance Officer 1 Finance Assistant	1 Finance Assistant	
Driver	6 Drivers 2 Cleaners 1 Gardener 1 Cook	1 Driver	5 Drivers 2 Cleaners 1 Gardener 1 Cook 1 Truck Driver
Total *(Local staff)*	**22**	**4**	**20**
International Staff	*9 (including Resident Representative)*	****1*	*10*

Source: supplied by the entities
* - before suspension of activities
** - WES – Water and Environmental Sanitation Programme
***- Excludes the non-resident Country Director

23. The Board's work in respect of staff hiring focused on:

(a) Agreements with the government on employment of local staff;
(b) Local staff recruitment procedures;
(c) Process of payment of salaries;
(d) Scale of salaries;
(e) Meal allowances; and
(f) Duration of contract and separation procedures.

24. The Board noted that in the Report of the Executive Board of UNDP and UNFPA on its work during 2001 (E/2001/35), the Executive Board took note of the Country Review Report for the Democratic People's Republic of Korea (DP/CRR/DRK/1) dated 13 July 2001. That country review report brought to light then some of the matters which were the subject of this audit, such as:

(a) *"Country office and national project national staff cannot be hired on the open market but are allocated by the two national executing agencies, while retaining their affiliation with their respective line ministries. Hence, it is difficult to separate their roles and responsibilities"* (paragraph 41);

(b) *"All national staff (both at the general service and professional level(s) are seconded from the Government. UNDP reimburses the Government for their salaries. Staff do not have UNDP contracts. Therefore, there are no UNDP staff performance reviews, and there is no salary component related to performance. UNDP has few options in its staff selection"* (paragraph 59).

Agreements with the Government on employment of local staff

UNDP

25. The Board noted that UNDP's Standard Basic Assistance Agreement with the Government of DPRK, dated 8 November 1979, has no specific provision for employment of local staff. However, local personnel assistance is mentioned in Article VI, (Assessed programme costs and other items payable in local currency): *"3. The Government shall also contribute towards the expenses of maintaining the UNDP mission in the country by paying annually to the UNDP a lump sum mutually agreed between the Parties to cover the following expenditures: [...] (b) Appropriate local secretariat and clerical help, interpreters, translators and related assistance"*.

26. This Article refers to the UNDP procedure of GLOC (Government local office costs), i.e. contributions made by the host Government towards the expenses of maintaining the UNDP country office. The Government of DPRK does pay GLOC in local currency to a non-convertible KPW[1] bank account held by the UNDP in Pyongyang. This is more fully discussed in the section on Foreign Currency Transactions.

27. The 1979 Basic Assistance Agreement with the Government of DPRK did not provide any detail of the practice and procedures for the employment of local staff and so ad-hoc practices developed. The formal practice and procedures for employing local staff were contained in a draft, unsigned and incomplete service agreement between UNDP and the Government, dated 10 February 1981. A copy of this document has been provided by UNDP to the Board. The draft document refers to an annex 1, which was to describe the scope of services, but was not provided to the Board. The Board's findings elsewhere in this report indicate where some of the clauses of this draft document may contravene UNDP staff rules. The document states *inter alia* that:

(a) The General Bureau for Affairs with the Diplomatic Corps (GBADC) of the Government of DPRK will provide services to the UNDP office (Article 1). However, *"UNDP remains free to meet its requirements from sources outside the Bureau [...]"* (Article 2);

(b) Local staff provided by the GBADC *"remain the employees of the Bureau; UNDP thus has no obligations towards those persons provided by the Bureau [...] under United Nations Staff Regulations and Rules"*. (Article 3);

[1] North Korean Won, DPRK local currency

(c) Monthly salaries for local staff due by UNDP are "*determined by mutual agreement between the Bureau and the Resident Representative*" (Article 4);

(d) Payments for overtime and travel costs "*will be made according to regulations issued by the Bureau*" (i.e. by GBADC) (Article 4);

(e) "*All payments will be made in local currency on the basis of monthly invoices submitted to the Resident Representative*" (Article 4);

(f) The GBADC "*will propose persons to provide the services*" and "*will submit to the Resident Representative the detailed Curriculum Vitae of such person*" (Article 7). No specification was made about providing one or several candidates for each post;

(g) "*The duration of service [...] will be determined on the basis of agreements between the Bureau and the Resident Representative*" (Article 9) and "*Removal of persons* [...] *will be effected only on the basis of mutual agreement*" and "*in such a manner as to avoid discontinuity of services*" (Article 8).

28. No signed copy of this agreement was provided to the Board. Copies of the correspondence between the Government of DPRK, the UNDP Resident Representative in DPRK, the Division of Personnel (UNDP) and the Office of Legal Affairs of the United Nations, spanning the period February to June 1981, indicated reluctance on behalf of the Government of DPRK to consider such a Service Agreement, and based on this assumption, the Director of the Office of the Legal Counsel suggested that *"the ad-hoc arrangements be continued until such time as the DPRK indicates a willingness to be more flexible"*.

UNFPA

29. UNFPA was part of UNDP when the original 1979 agreement was signed, and there is no evidence that UNFPA has subsequently, entered into a specific Standard Basic Agreement with the Government of DPRK. On 22 February 2006, the Government of DPRK in a letter stated that " ... *the cooperation between the government of DPRK and UNFPA will be continued in accordance with the Standard Basic Assistance Agreement between the DPRK government and the UNDP signed on 8 November 1979, which is applicable mutatis mutandis to UNFPA."*

UNOPS

30. UNOPS does not have any basic agreement entered with the Government of DPRK and has no local staff in DPRK. UNOPS also was part of UNDP until December 1994, and does not usually have Standard Basic Agreements in most countries that it operates in as it is a service provider to UN organizations and as such works under the specific agreement of the UN Resident Coordinator or other UN entity.

UNICEF

31. UNICEF's Standard Basic Cooperation Agreement with Government of DPRK dated 28 October 1996, states in Article XVII (Locally Recruited Personnel Assigned to Hourly rates) that: "*The terms and conditions of employment for persons recruited locally and assigned to hourly rates shall be in accordance with the relevant United Nations resolutions, decisions, regulations and rules and policies of the competent organs of the United Nations including UNICEF. Locally recruited personnel shall be accorded all facilities necessary for the independent exercise of their functions for UNICEF.*"

Local staff recruitment procedures

32. The Board noted that all local staff in UNDP, UNFPA and UNICEF offices are seconded from the Government of DPRK. An exchange of letters is made with the Government to approve the recruitment of each staff member. Although these local personnel are called staff, (and were employed through the Government and do not have employment contracts), UNDP considered that its staff rules do not apply to such persons. The Board, in its view, considered that despite this interpretation, local personnel were dealt with and accorded some rights and privileges of UNDP personnel, and so the hiring practices were evaluated against the entities relevant policies and rules.

33. The UNDP Personnel Manual provides for secondment of government officials in national officer posts (OHRI, Chapter II, section 10204, § 4.0): "*Designated national officer posts in UNDP field offices may be filled, under certain conditions by government officials through a secondment arrangement. Seconded government officials can serve to strengthen these offices by providing them with a perspective of the recipient Government. At the same time, government officials who return to government service at the end of the secondment will have gained valuable experience through greater involvement in the programme itself.*"

34. In addition, the UNDP Personnel Manual states that "*All UNDP requirements for the employment of national officers must be met in respect of the employment of the seconded government officials. The Government should be informed of these requirements and that UNDP reserves the right to reject candidates.*"

35. The Board noted that certain local staff recruitment procedures were not compliant with the UNDP Personnel Manual referred to above. Evidence of this is described below:

(a) No Letters of Appointment were supplied to audit for all appointments as seconded government officials have no Appointment Letters from the UN Country Office;

(b) The practice applied in staff secondments is that the Government of DPRK, except in rare cases, provides only one candidate for each job, while the UNDP

rules for the recruitment of seconded government officials states that "*the Government is required to submit a list of qualified candidates to the resident representative (cf.* OHRI, Chapter II, section 10204, § 4.0, 5.);

(c) Secondment of government personnel to the UNDP country office is provided for in the Manual only for national officer posts, but not for general service staff posts;

(d) UN rules on recruitment and appointment require that the following information be provided: form "P11" biographical data, copy of university degrees, medical examination, and copy of birth certificate. Neither the Government nor the candidates provided the documentation required.

Process of payment of salaries

36. The salaries and meal allowances of local staff employed by the UN offices of UNDP, UNFPA and UNICEF were paid to the Government and to local staff respectively as summarised in the table below.

Table 2
Method of payment of personnel costs[2]

	UNDP/UNFPA	UNICEF	Comment
Salaries			
Level of salaries			Salaries are paid based on a salary scale communicated by the Government
Mode of payment	Manual cheque payments	Bank transfer and cheques	No monthly invoice by the Government
Currency of payment**	In convertible KPW prior to early 2004, then in Euro	In US$ until 2004, then in Euro[3]	
Meal allowances			
Mode of payment	By cheque made to one person in the office	By cheque made out to the UNICEF cashier who draws the money and disburses it to the individual staff against receipt	
Currency of payment**	In convertible KPW prior to 2001, then in US$, switched to Euro in December 2002	In US$, switched to Euro between 2002 and 2004	
DSA*			
Level of allowances			Rates unified in 2001 for all UN offices in DPRK: 100% of international DSA for National

[2] As indicated in the interviews and documents provided to audit ;
[3] Cf. letter from the Government of DPRK to the UNICEF office dated 21 May 2004 requesting the payment of salaries in Euros.

			professional officers, 75% for General Service, 50% for drivers
Currency of payment **	In convertible KPW prior to 2001, then in US$, switched to Euro in December 2002	In convertible KPW prior to 2001, then US$, switched to Euro between 2002 and 2004	
Overtime and travel costs			
Mode of payment	Manual cheque payments	Same modality as meal allowance	
Currency of payment **	Local staff requested in 2001 that overtime (for eligible GS staff) and in-country travel costs be paid in US$; switched to Euro in 2002		

*daily subsistence allowance for overnight travel
** currency of payment may have been non-convertible KPW prior to 1995-1997.

37. The Board was informed that all salaries were paid through the Government. During this preliminary phase, the Board did not perform alternative procedures to confirm whether all payments were released in full by the Government of DPRK to the staff members.

38. UNDP explained that arising from movements in exchange rates in February 2004[4], the country office requested UNDP headquarters for approval to disburse the monthly payroll in Euro instead of KPW to the government.

39. This approval was obtained by the country office from UNDP Headquarters Treasury and Human Resources Department. As is shown in Table 2, meal allowances, DSA, overtime and travel costs were already made in Euro prior to February 2004. The Board noted the instruction of UNDP headquarters to abandon this practice early in 2007. The Board was informed that this instruction was also implemented by UNFPA.

40. A note signed by the then UNDP Resident Representative (RR), in May 2004, indicated that the monthly salary for local staff will be paid in Euro effective January 2004 to address fluctuations in the exchange rate. Attached to this note is correspondence between the country office and treasury requesting advice on how to proceed. Treasury advised the country office that it *"had no concerns if you issued payroll in Euro as opposed to won, unless you have a belief that you will have a buildup of local currency that cannot be expended."* Further correspondence from OHR indicated that *"staff in DPRK are not technically UN staff but on contract from the government. Therefore the common system rules on currency of payment do not strictly apply. I would suggest that certainly consultations among UN agencies take place to ensure alignment in practice."*

[4] The note is dated 25 February 2003, but was received in 2004.

Scale of salaries

41. For all entities, the level of salaries is determined according to a salary scale communicated by the Government. No evidence was supplied to the Board that a salary survey has ever been conducted by the UN entities in DPRK.

42. UNDP and UNFPA personnel were paid in convertible KPW until early 2004.[5] Since that date, payments have been made in Euro. The monthly salary is €358.50 for national officers and from €243 to €315 for drivers, cleaners and gardeners.

43. Table 3 illustrates the increase in the salary scale for national officers since 2002. These increases were requested by the DPRK authorities. The Board was not advised of the basis for the increases, and noted that these increases were not originally budgeted for.

Table 3
Level of salaries of locally recruited personnel (national officers)

Period	Monthly salary in US$	Indicative Monthly salary in Euro	Indicative Monthly salary in KPW	Exchange rate
1/01/02-31/07/02	233.44		501.90	1 US$=2.15 KPW
1/08/02-30/06/03	246.97		37,045.00	1 US$=150 KPW
1/07/03-30/09/03		274.85	42,601.75	1 Euro=155 KPW
1/10/03-31/12/03		310.70	48,158.50	1 Euro=155 KPW
1/01/04-March 04		358.50	55,567.50	1 Euro=155 KPW
From March 2004		358.50		

Source: Status of salary tables for UNFPA (years 2002, 2003, 2004 and 2005) and UNDP (2003 and 2004) locally recruited personnel;

44. In a letter dated 21 May 2004, the Government of DPRK requested the UNICEF office to pay salaries of national professional officers in Euro in the amount of €375 per month. Until that date, UNICEF was paying for local staff in US dollars and the level of salary for national professional officers was US$375. The Board noted that UNICEF switched to Euros but did not increase the level of salaries, since national professional officers' salaries are currently €358 per month.

Meal allowances

45. The Board was informed that UNDP, UNFPA and UNICEF pay local personnel a monthly "meal allowance"[6] directly (i.e. not through the Government of DPRK). The "meal allowance" amounts to €100 per month per person. The Board is not aware of any enabling policy for these allowances.

---

[5] Cf. UNDP Resident Representative Note for the file dated 26 April 2004

[6] Cf. Letter from FDRC (Government), dated 9 March 2001; Minutes of the meeting of the Operations Chiefs of the three UN offices of WFP, UNDP and UNICEF in Pyongyang, on 6 April 2001; Minutes of UN Country Team meeting on 13 April 2006 obtained from the intranet.

Duration of contract and separation procedures

46. Duration of contracts varied between UN organizations and the staff seconded from the DPRK authorities. The UNDP Personnel Manual provides that government-seconded officials be appointed on a fixed-term basis of two years.

47. The Board noted instances when seconded personnel were recalled by the Government within two years. For example, a former national programme officer at UNFPA was recalled in June 2006 with a five day notice period after nine months in office. A letter dated June 2006 from the UNFPA China office to the Government of DPRK mentioned the various trainings that the staff member had been provided with and that the sudden replacement would compromise the capacity of UNFPA to deliver tangible results on its programmes in DPRK.

48. UNICEF had an exchange of letters with the Government of DPRK, dated 31 July 2001, confirming the Government's agreement to its request for the provision of national staff for a period of at least two years, with thirty days advance notice of proposed reassignments or separations. Contrary to this agreement, several staff were recalled before completion of their two years of assignment, as shown in Table 4 below:

Table 4
UNICEF local personnel – breach of expected term

Position	Date of entry	End of service	Duration of stay
Water and Environmental Sanitation Programme (WES), National Professional	15 Nov, 2004	6 Jan, 2006	13 months
Health, National Professional	17 Aug, 2004	30 Apr, 2005	8 months
Health, National Professional	2 May, 2005	2 Sep, 2005	4 months
Health, National Professional	18 Jul, 2005	31 Mar, 2007	20 months
Nutrition, National professional	1 Mar, 2005	30 Sep, 2006	19 months
National Secretary	18 Jul, 2005	22 May, 2006	10 months
Driver	22 Nov, 2004	3 Sep, 2005	9 months
Driver	22 Nov, 2004	9 May, 2005	5 months
Truck Drivers	3 Jan, 2003	15 Oct, 2004	20 months
	15 Oct, 2004	31 Dec, 2005	14 months
	1 5 Jan, 2006	1 Jul, 2006	5 months
	1 Jul, 2006	5 Feb, 2007	7 months

Source: UNICEF

49. The UNICEF 2006 DPRK country office report states that " ... *there has also been a high rotation of national seconded staff: 3 out of 5 staffs in operations, 4 out of 5 in programme and 3 ancillary staffs. This high rotation of national staff required significant work for the international team, as the newly seconded officers who are not technical need to be trained in everything: understanding UNICEF programme and procedures and working with ProMS*".

50. The Board's main conclusions in respect of local staff are:

(a) All local staff hired by UNDP, UNFPA and UNICEF were seconded from the Government of DPRK;
(b) Agreements entered into between UNDP and the Government of DPRK (Standard Basic Agreement) and UNICEF and the Government of DPRK (Standard Basic Assistance Agreement) did not fully address local staff hiring issues;
(c) Local staff hiring practices adopted by UNDP were not supported by an agreement with the Government of DPRK;
(d) Staff seconded from the Government of DPRK did not consistently adhere to the duration agreed upon with the Government (UNICEF) and/or stipulated by the UN agency HR Manual (UNDP);
(e) Local staff salaries were paid to the Government of DPRK, and not to the local staff directly;
(f) Payments to the government in respect of seconded staff have been made in convertible Won and Euros and previously in US dollars;
(g) Clearance was provided by UNDP Headquarters personnel to make payroll payments in Euros;
(h) Increases were made to the rate of pay for local staff for which the Board was not provided with the basis; and
(i) Local staff have been recipients of regular 'meal allowance', for which no enabling policy was supplied to the Board.

4.2 Foreign currency transactions

51. This area of work focused on whether the entities made payments to local staff and suppliers in foreign currency, and whether such payments were in accordance with the entities' rules.

52. The Board found that payments were made by all entities at different times in foreign currency, as well as convertible and non-convertible local currency[7]. The Board sets out below the detailed findings.

[7] For chronological record of developments regarding payments to local staff and suppliers in foreign currency refer to Annex V.

Bank accounts maintained

53. The bank accounts operated by UNDP locally in DPRK are set out in Table 5:

Table 5
UNDP, UNFPA, UNOPS

00136	Foreign Trade Bank	DPRK	1001	KPW	UNDP Representative in DPRK (non-convertible)
00136	Foreign Trade Bank	DPRK	1002	KPW	UNDP Representative in DPRK (convertible)
00136	Foreign Trade Bank	DPRK	1003	EUR	UNDP Representative in DPRK

Source: UNDP (adapted)

54. UNDP processes payments for its own operations and on behalf of UNFPA and UNOPS. Payments are further processed by UNDP on behalf of other UN entities.

55. UNDP processes payments from all three bank accounts for operations in DPRK. The accounts were generally used as follows:

(a) The non-convertible Won bank account was used for the receipt of Government Local Office Contributions (GLOC) from the Government. Payments made from this account relate mainly to rental and utility costs and were paid directly to the General Bureau for Diplomats (a department within the Government which provides the country office with administrative support).

(b) The convertible Won bank account was funded from the Euro account. Payments from this account included, *inter alia*, travel costs, salaries to local staff and sundry office costs. Payments made from this account could also be converted into cash Euros at the bank in DPRK.

(c) The Euro account was funded from UNDP headquarters. Payments from this account included, *inter alia*, salaries, DSA, allowances, rental, consultant costs, sundry office costs and directly attributable project costs.

56. The local bank accounts operated by UNICEF were as follows:

Table 6 - Series of Bank Accounts for UNICEF DPRK
As of 26 April 2007

Bank reference	Bank Name Account Number	Currency	Current balance	Current status
160-02	ING-NEAB DPRK A/C#05127	USD	0	Closed
955-01	Cash on Hand – DPRK	KPW	0	Open – technical problem to close (Inactive)
955-02	Cash on Hand – DPRK	USD	0	Closed (Inactive)
955-03	Cash on Hand – DPRK	Euro	0	Closed since 15/06/2004
163-02	Foreign Trade Bank A/C # 08831402	USD	0	Closed
163-01	Foreign Trade Bank A/C# 08831401	KPW	655,844.47	Open
163-04	Foreign Trade Bank A/C #08831412	Euro	58,964.38	Open

Source: UNICEF (adapted)

57. The Board's work in respect of foreign currency transactions focused on:

(a) Banking arrangements;
(b) Procedures for disbursements; and
(c) Bank balance levels.

Banking arrangements

58. The UNDP manual on locally recruited staff in Chapter 111, Section 10300, indicates that "*Salaries and allowances of personnel recruited shall be paid in the currency of the duty station*" and "*Requests for payment or partial payment in convertible currency or access to purchases in hard currency may be approved exceptionally by the Headquarters Local Salary Steering Committee on a country-by-country basis.*" The Board noted that the UNDP country office paid salaries and allowances for local staff from either the Euro account or the convertible Won account contrary to the above-mentioned instruction, although UNDP contended that such personnel were not UN employees.

59. The UNDP special treasury instruction on currency exchange rates issued in June 1992 includes the rule that: "*To the extent possible, all local expenditure of a field office must be paid in non-convertible local currency* and *Requests for payment or partial payment in convertible currency or access to purchases in hard currency may be approved exceptionally by the Headquarters Local Salary Steering Committee on a country-by-country basis.*". The UNDP Finance Manual was updated in 2000 and does not any more contain this guidance. The Board noted that the rentals which should have been paid out of the non-convertible Won bank account, were paid from the Euro account and no evidence of approval by the Headquarters Steering Committee thereof was supplied.

60. UNDP's Standard Basic Agreement with the Government of DPRK in Article V, provides that "*Moneys payable to the UNDP ... shall be paid to the account designated for this purpose by the Secretary-General of the United Nations and shall be administered in accordance with the applicable Financial Regulations of the UNDP.*" The Board noted that contrary to Article 6 of the Standard Basic Agreement, UNDP made local payments in foreign currencies.

61. Annex VI has been prepared by UNDP summarising the different types of payments made. The annex highlights that UNDP paid local staff costs, local allowances and other local costs in Euros and convertible Won.

62. The current Resident Representative (RR) in UNDP recently indicated to the Board that when he assumed his assignment in Pyongyang in July 2005, the payment of various costs in foreign currency was an established practice. He indicated that in his understanding the advantage for government counterparts was that if they got a cheque in Euro, they were more certain that they actually received Euro directly to their account. If they get a convertible Won cheque, they have to convert the Won into Euro in the Foreign Trade Bank which may take some time and they were not sure that they will always receive the Euro. He added that another consideration may be the lack of confidence in the Won. Especially after the economic adjustments in 2002, he understood that inflation was high, so foreign currency would have been more secure. This was his assumption as to why the government counterparts preferred Euro payments. The RR

indicated that international staff in DPRK do not have bank accounts and to his knowledge, neither did national staff. Accordingly, international staff were paid part of their salary in Euro cash directly by the country office, in order to pay their living expenses.

63. UNICEF Financial Regulations and Rules with respect to currency transactions are as follows:

> *Regulation 11.2: The Executive Director in accordance with the aims and objectives of UNICEF, shall take the required actions to make full and effective use of all currencies available to UNICEF.*
>
> *Rule 111.12: The Comptroller may establish procedures for the acquisition and utilisation of currencies held by UNICEF.*

64. The Board was not made aware of any specific currency rules for payments of local staff salaries at UNICEF.

Procedures for disbursements

65. Based on the detailed transaction schedules supplied for UNDP (including transactions conducted for UNFPA and UNOPS)[8], the Board made some preliminary observations which are reflected below. The information supplied was not verified, and no source documents were examined for this phase of the audit.

Payments made from Euro and Convertible Won account

66. A review of the payments from the account indicated that, in certain instances overtime and meal allowances were paid directly to a local staff member who would cash the cheque and distribute the cash to local personnel. As the supporting documents for

---

[8] The Board was supplied with detailed transaction schedules by UNDP headquarters treasury for the following categories.

(a) Total disbursements from the Euro account;
(b) Total disbursements from the KPW convertible account;
(c) Total disbursements from the KPW non-convertible account;
(d) Total disbursements made from UNDP accounts on behalf of other agencies for the period 2004-2006 (2002 to 2003 not supplied);
(e) Total transaction payments to the following Government departments;
- General Bureau for Diplomats
- Ministry of Foreign Affairs
- Ministry of Foreign Trade

(f) Total transactions to vendors identified as 'National Staff';
(g) Sample of transactions from the Euro account for 2002-2003 indicating that payments were made in foreign currency for local salary and allowances, rental costs, utility costs and other sundry office expenses (pre-Atlas);
(h) Sample of transactions from the Euro account for 2004-2006 indicating that payments were made in foreign currency for local salary and allowances, rental costs, utility costs and other sundry office expenses.

these payments were not kept in the headquarters in New York, the Board was not able to verify any controls exercised over these payments.

Payments made to vendor 'National Staff' from the Euro account

67. A review of the payment schedules supplied from Atlas (ERP system of UNDP, UNFPA and UNOPS) indicated payments to a vendor 'National Staff' without identifying the name of the staff. These payments primarily related to meal allowances and overtime. It could not be determined to whom the actual payment was made without reference to supporting documents. The Board also noted a number of instances where there was no description of what the payment relates to on the Atlas system and it was merely marked as 'N/A' (not applicable).

Manual payments – ultimate beneficiaries

68. All payments made from the Euro, convertible Won, and non-convertible Won accounts for the period 2002-2006 have been recorded as manual cheque payments. No cheques were held in New York, therefore, in this phase, the Board did not have access to the paid cheques. The Board was thus unable to determine whether the cheques were made out in the name of the vendor or for cash and therefore unable to determine what actual cash payments may have been made to local suppliers or staff.

Payments to local suppliers

69. A review of the payments (as extracted from the Atlas system) made from the Euro account and the KPW convertible Won account, indicated that payments were made to vendors which were reflected as being local suppliers. This is contrary to the UNDP special treasury instruction of June 1992, which directs that non-convertible local currency be used for all local expenditure.

Rentals

70. UNICEF indicated that it did not pay any rent for the office space it occupies. At UNDP, the monthly rentals with effect from 1 January 2007 with the Government of DPRK was KPW 507,345 (US $3,590.12), and previously KPW 468,100 (US $3,312.41). The Board noted that UNDP paid local rentals in foreign currency.

Bank balance levels

71. A review was performed of the bank balances of the three UNDP accounts. The Board noted while non-convertible Won balances were maintained, disbursements for local costs were still being made out of the Euro and convertible Won accounts.

Counterfeit currency

72. In the course of the audit, UNDP staff alleged that the UNDP DPRK country office had in its possession $3,500 of counterfeit United States currency. UNDP indicated to the Board that "*...in agreement with the US authorities, the suspected counterfeit dollars were handed over to the US authorities on 20 March 2007 in New York. ...*" The Board did not investigate this matter further as it does not form part of the Board's mandate.

73. The Board's main conclusions in respect of foreign currency transactions are:

(a) UNDP made some payments to local suppliers and local staff (including allowances) in foreign currency contrary to the Standard Basic Agreement and as detailed in paras. 58 and 59;
(b) No formal authorisation was provided to exempt the UNDP country office from compliance with the relevant instructions (paras. 58, 59 and 60); and
(c) The Regulations and Rules were not sufficiently comprehensive in dealing with DPRK country office payments in local and foreign currencies.

4.3 Access to projects

74. The Board found that for activities for all entities, project access to UN personnel only occurred in a coordinated way with the authorization and supervision of DPRK authorities.

75. In the interest of expediting assistance with travel arrangements, the Board requested for a *note verbale* (referred to in the letter in Annex 4 from the Chairman of the AOC). This *note verbale* was issued by the Chef de Cabinet of the Executive Office of the Secretary-General on 12 March 2007. In an e-mail dated 11 April 2007, the Board was informed that on 20 March 2007, the Deputy Permanent Representative of DPRK advised him that his government was not going to extend any cooperation to UNDP's audit.

Standard Basic Assistance Agreement (UNDP)

76. The Agreement provides for access to project sites as described in the following pertinent sections:

a. Under Section 2, Article IV (Information concerning projects), it states that *"The UNDP undertakes that the Government shall be kept currently informed of the progress of its assistance activities under this Agreement. Either Party shall have the right, at any time, to observe the progress of operations on UNDP-assisted projects."*

b. In Section 3, *"The Government shall, subsequent to the completion of a UNDP-assisted project, make available to the UNDP at its request information as to benefits derived from and activities undertaken to further the purposes of that project, including information necessary or appropriate to its evaluation or to evaluation of UNDP assistance, and shall consult with and permit observation by the UNDP for this purpose."*

c. Under Section 1, Article X (Facilities for execution of UNDP assistance), it also states that *" ... it shall, in particular, grant them (UNDP, its Executing Agencies, their experts and other services performing services on their behalf) the following rights and facilities:*

c) access to site of work and all necessary rights of way ...."

77. UNOPS projects were wholly UNDP funded projects whereby UNOPS acts as the implementing agency for UNDP. UNOPS implements projects based on a signed project document and budget revisions received from the UNDP country office.

Standard Basic Cooperation Agreement (UNICEF)

78. This Agreement likewise presents specific provisions allowing project site visits as follows:

a. Under Item 3, Article III (Programmes of Co-operation and Master Plan of Operations), it states that *"The Government shall permit UNICEF officials, experts on mission and persons performing services for UNICEF to observe and monitor all phases and aspects of the programmes of co-operation."*

b. Under Item 1, Article XVI (Access Facilities), it further states that *"UNICEF officials, experts on mission and persons performing services for UNICEF shall be entitled to:*

a) To prompt clearance and issuance, free of charge, of visas, licenses or permits, where required;

b) To unimpeded access to or from the country, and within the country, to all sites of co-operation activities, to the extent necessary for the implementation of programmes of co-operation."

Background-project activity

79. One of the three focus areas of this phase of audit is whether the agencies had adequate access to the projects they funded, as this condition is entrenched in the entity's agreements with the host countries and is a critical control and monitoring consideration.

Programme Expenditures

80. Programme assistance covered all expenditures related to projects. These expenditures include travel, procurement of supplies, materials and equipment, monitoring activities, payment of salaries, and other expenses that are directly charged to the programme/projects. Table 7 shows the details of programme expenditures for each of the four entities for 2002 to 2006. UNOPS' expenditure is reflected on its own, but is also included with UNDP expenditure, as UNOPS implemented projects wholly on behalf of UNDP.

Table 7
Programme Expenditures (in US Dollars)

Agency	2002	2003	2004	2005	2006	Total
UNDP *	1,888,187	2,333,196	1,164,000	3,272,000	4,568,000	13,225,383
UNFPA	448,752	670,078	974,360	973,499	1,012,335	4,079,024
UNICEF	8,263,039	7,457,680	18,087,227	12,683,671	8,731,810	55,223,427
Total	10,559,978	10,460,954	20,225,587	16,929,170	14,312,145	72,527,834
UNOPS	731,019	261,610	(271,254)	1,341,663	2,266,597	4,329,635

Source: Agency supplied reports
** UNDP recorded programme expenditures include those that UNOPS incurred on its behalf.*

81. Table 8 details the number of projects at the four UN entities for the years 2002 to 2006. The project statistics for UNDP also include the projects reflected for UNOPS which is its implementing partner.

Table 8
Number of active projects per entity

Agency	2002	2003	2004	2005	2006
UNDPand UNOPS	31	41	28	33	39
UNFPA	2	3	4	3	2
UNICEF	9	9	9	9	10
Total	**42**	**53**	**41**	**45**	**51**

Source: Agency supplied data

82. Further classification of the project modalities for UNDP is shown in Table 9 below:

Table 9
Type of UNDP Projects

Type	2002	2003	2004	2005	2006
National Execution Project (NEX)	15	23	15	17	13
Direct Execution Project (DEX)	3	4	4	6	13
Other Agencies	13	14	9	10	13
Total	**31**	**41**	**28**	**33**	**39**

Source: Summary of UNDP's Programme Expenditure by Disbursing Source (For Table Nos. 8 and 9, insofar as UNDP is concerned)

83. The projects focused on the following key areas:

(a) Economic management focusing on economic growth, foreign trade and investment increase and generating resources for social and economic development;
(b) Improved sustainable energy sources;
(c) Improved environmental management and contributing to sustainable use of environmental resources;
(d) Increased food availability at the household and national levels; and
(e) Improved basic social services focusing on public health, child and maternal health and nutrition, education, water and sanitation.

84. For UNDP, UNFPA, and UNOPS, most of the projects were implemented directly by the entity. UNICEF, oversees all its own programs using implementing partners.

85. Individual listings of projects as provided by UNDP, UNFPA and UNOPS are shown in Annex VII. UNICEF provided the Board ProMS listing of programmes, as shown in Annex VIII.

Procedures for project access

86. Through enquiry, the Board was advised by the entities that the procedure for project visits was to request clearance or authorization from the government through the Ministry of Foreign Affairs. Requests were made either in writing or orally. The Ministry of Foreign Affairs then coordinated such request with the concerned ministry (Ministry of Foreign Trade, Ministry of Land, Environment Liaison Office, other offices) involved in the implementation of the project. It usually took a week to process the request. Once the request for project visit was granted, an officer from the concerned Ministry and a translator from the country office accompanied the visiting team to the

project site. The Board was supplied with documents or reports (on a sample basis) which provided indications that access to projects was indeed given to entity personnel.

87. Based on the information gathered from the four entities, there were no written code of conduct between these entities and the government which indicated possible restrictions in terms of access to projects. As described above and based on interviews, the Board was informed that access to projects could only be conducted under the supervision and with the approval and escort of the representatives of the Government of DPRK.

88. The Board noted that the control over the project access exercised by the DPRK authorities, was not in line with Article X of the Standard Basic Agreement entered into between UNDP and the Government of DPRK which provided that *"the Government shall, in particular, grant them the following rights and facilities: ... (c) access to the site of work and all necessary rights of way; (d) free movement within or to or from the country, to the extent necessary for proper execution of UNDP assistance ... ."*

Nature and frequency of project visits

89. Monitoring and evaluation of the implementation of projects is a critical control. For each entity, the Board sets out below the documents, explanations and evidence supporting the contention that monitoring/evaluation and access to projects did take place. However, the Board did not verify during this phase, the validity of payments and accuracy of the reports and explanations furnished as well as any comments contained in the reports on the project planning and implementation.

90. The Board noted that in the audit undertaken by OAPR KPMG of the UNDP office in May 1999, one of the findings was that in three out of five projects selected, there were no field visit reports from 1994 – 1998 (Project No. DRK/92/011/A/01/99), from 1996 – 1998 for Project No. DRK/95/001/B/01/99; and from 1997 – 1998 (Project No. DRK/97/001/A/01/99). This was not in adherence to the requirement of at least one project visit per year (in respect to all ongoing projects) and to document the visit on relevance, performance, progress and early signs of successes and difficulties.

91. For UNDP projects, monitoring and/or evaluation visits as applicable were undertaken *inter alia*, by the country office representative, programme managers, Regional Bureau, study tour groups or national and international consultants. Reports submitted in support of the project site visits and monitoring and evaluation work included:

(a) Interim progress reports;
(b) Assessment/mission reports;
(c) Field visit reports;
(d) Final reports on projects;
(e) Annual project review report; and
(f) Evaluation and project preparation mission.

92. For UNFPA projects, site visits by the Country Director in Beijing were done usually at least once in two months, the UNFPA country office at least once a month, and at times by the Technical Support Team (Country Support Team) in Bangkok[9]. There were also instances of evaluation visits done by national and international consultants. Among the reports submitted to cover these visits included the following:

(a) Evaluation report of UNFPA's annual bridging programmes in DPRK for 2004-2006;
(b) Field monitoring visit reports;
(c) Field office trip reports; and
(d) Mission reports on working visit to DPRK.

93. As per the project list supplied by UNOPS, all projects were visited in 2002, 2004, 2005 and 2006 and no visits occurred in 2003. These visits were undertaken by UNOPS Portfolio Managers and international consultants for supervision and monitoring of project activities. The Back to Office reports were with the UNDP Country Office, and were not reviewed by the Board.

94. In its 2006 DPRK country office annual report, UNICEF mentioned that, *"Restrictions on access to certain provinces and counties continued. UN staff need to obtain prior clearances from the government before undertaking field trips even to provinces and counties where we have access. Sometimes these are denied without assigning any reason. Combined with the barriers on communicating directly with communities and children these restrictions seriously handicap our ability to monitor the situation of women and children and the impact of our interventions on the ground."* Elsewhere in the same report, UNICEF stated that, *"Limited joint field visits with counterparts and limited access to families and caregivers does not allow for feedback from the end-users of the services and strategies implemented. This also leads to lack of opportunities to be in contact directly with the community to conduct operational research such as focus group discussion techniques."*

95. Despite these restrictions, project visits have been carried out on accessible projects as indicated in the total number of days these staff spent in the field per year from 2002 to 2006, based on Travel Authorisations (TA's): 2002 - 337 days (71 TAs); 2003 – 283 days (117 TAs); 2004 – 404 days (134 TAs); 2005 – 428 days (222 TAs); and 2006 – 271 days (179 TAs). Below is a list of evaluations/studies/assessments submitted by the country office to the UNICEF HQ Evaluation Office:

(a) DPRK Nutrition Assessment 2002/002;
(b) Analysing the Causes of Child Stunting in DPRK 2003/001;
(c) Increasing Water Supply and Sanitation Coverage in Hyesan City, Ryanggang Province 2003/003;

[9] Based on interview with Branch Manager, South and West Asia branch, Asian and the Pacific Division, UNFPA. He was a former Programme Officer, UNFPA Regional Office, China who had conducted several project site visits in DPRK.

(d) Assessment of water supply and sanitation in Bukchong County 2004/002;
(e) Assessment of water supply and sanitation in Rinsan County 2004/003; and
(f) Assessment of water supply and sanitation in Unryul County 2004/004.

Field visits conducted by internal audit

96. During the year 2002 to 2006, there was no indication that field visits were undertaken by internal auditors of all entities, although, areas in programme management were part of the audit scope.

97. The Board's main conclusion in respect of project visits are:

(a) Separate basic agreements existed between UNDP, UNICEF and the Government of DPRK to provide for access to project sites;
(b) Project visits by UN personnel or their representatives took place only after arrangements were made through the Ministry of Foreign Affairs;
(c) Monitoring and control visits were undertaken by personnel of all entities, resulting in the production of various site/project reports; and
(d) Some UNICEF project visit requests were not approved by the DPRK authorities.

5. Review of internal audit reports

98. The Board performed a review of the internal audit reports issued at UNDP, UNFPA and UNICEF. No reports were issued for UNOPS. A summary of the findings as applicable to the areas noted above and the status of implementation as provided by management of the entities have been included in Annex IX.

99. The implementation reports furnished by management indicated that for all three entities, some findings remained under implementation or unimplemented. As previously reported by the Board, (A/61/5/Add.1, para. 431) in its long-form report for UNDP for the biennium 2004-2005, the Board was concerned about the low implementation rate of internal audit recommendations. UNICEF advised the Board two of the 15 recommendations issued by the Office of Internal Audit were not implemented as at 15 May 2007.

6. Conclusion

100. The Board has in this report dealt with the three focus areas contained in its scope, and provided findings and conclusions. Accordingly, in respect of the current scope, the Board has not suggested any further procedures for it to perform.

101. The findings contained in this report will be considered for inclusion in the Board's long-form report to the General Assembly in the current biennium. The Board also takes this opportunity to highlight that in its previous reports it raised related observations in respect of *inter alia* human resources management, cash management, procurement and project management.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman, United Nations Board of Auditors)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa
(Lead Auditor)

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

31 May 2007

UNDP DPR KOREA

LIST OF INTERNATIONAL STAFF: 1995-present

No.	NAME	POSITION	DATE From	DATE To
1	ACHIKZAD G.	RC/RR	Jul-93	Aug-96
2	ADAM, Sara	Ops Manager	Jul-03	Jan-05
3	ANZAI, Naoko	ARR (P)	Aug-03	Apr-04
4	BAKAKAUOVA, Zhanara	RC Support Officer*	Aug-06	Mar-07
5	BHATIA Vineet	DRR (P&O)	Jan-06	present
6	BOYD Deirdre	DRR (P)	Feb-01	Feb-02
7	BREWAH Paul	Ops Manager	Sep-06	present
8	DEVAUD Philippe	ARR (P)	Aug-96	Jun-98
9	DU Yuexin	ARR (P)	May-05	Mar-07
10	DUBOIS, Yolanda	Ops Manager	Jan-02	Jul-02
11	FRANCIS-PFISTER Cheryl	ARR (O)	Jun-96	Sep-99
12	HESSIC Carlyse	ARR (O)	Sep-93	Jun-96
13	HYDER, Masood	RC/RR	Aug-02	Jul-03
14	KANWAR, Jaginder	Ops Manager	Mar-01	Aug-01
15	JORGENSEN Kirsten	DRR (P)	Sep-98	Dec-00
16	LEMAIRE Christian	RC/RR	Aug-96	Oct-99
17	MAGALLANES Monina	DRR (P)	Jun-93	Sep-95
18	MORTON, David	RC/RR	Aug-99	Aug-02
19	NUNEZ Olof Tobias	JPO	Feb-02	Mar-03
20	PAKKALA Timo Sakari	RC/RR	Jul-05	present
21	REECE-EVANS Neil	DRR (O)	Aug-99	Dec-00
22	SCHOLL Willi	DRR (P)	Sep-95	Apr-98
23	SCOTT-DUNNE, Naomi	Ops Manager	Jul-02	May-03
24	SELIM Abu	Country Director	Nov-01	Jun-05
25	SHKURTAJ, Artjon	Ops Manager	Feb-05	Aug-06
26	SINGHA, Samar	Ops Officer	Aug-99	Feb-01
27	SORENSEN Hanne Ingemann	JPO	Feb-99	Dec-99
28	SORENSEN Jorn	Prog Specialist	Dec-98	Nov-00
29	THAPA, Vijay	Fin Specialist	Jul-03	present
30	YUHUA, Chen	NEX Support Officer	1998	2000
31	ZELEKE, Mulualem	Procurement Specialist	Dec-02	present

*UNDP Administered

Permanent Subcommittee on Investigations
UNDP Report - FN 24

LIST OF NATIONAL STAFF: 1995-present

No	NAME	POSITION	DATE FROM	DATE TO
Programme				
1	Hong Sok Hyon	NPO	1995	1997
2	Kim Kwang Il	NPO	1995	1998
3	Pang Yong Gun	NPO	1995	2000
4	Ri Yong Nam	NPO	1995	1999
5	Jong Sang Hun	NPO	1997	2000
6	O Kyong Chol	NPO	2000	15/9/2002
7	Choe Rim	Admin Officer	1996	01/02/1998
		NPO	16/09/2002	31/03/2005
8	Kim Chang Ho	NPO	04/01/2005	28/2/2007
9	Ri Kyong IL	NPO	05/08/2006	15/03/2007
10	Kim Yun Hun	NPO,ELO Project	2000	31/6/2005
11	Ri Hyong Chol	NPO	31/07/2005	15/3/2007
12	Hong Ok Ran	PSU	16/06/1995	04/08/1997
13	Jang Mi Son	PSU	04/09/1997	09/09/1999
14	Kim Su Gyong	PSU	09/08/1999	08/01/2004
15	Ri Yong Chan	PSU	14/06/2004	15/3/2007
16	Im Kum Ran	RC Assistant	20/12/1996	Present
17	Kim Ki Suk	Assistant, Prog Div	2000*	
18	Sok Jyong Mul	National Programme Officer	2000*	
19	Pak Chun Il	Montreal Protocol, Liaison Officer	2000*	
20	Ri Song Chol	National Programme Officer, FAO	2000*	
Operations				
1	Kim Myong Chol	LAN Manager	03/01/1996	15/03/2007
2	Li Kum Sun	Finance Officer	10/01/1995	15/03/2007
3	Li Yong Sun	Finance Assistant	25 /09/1995	:15/03/2007
4	Rim Cheong	Admin Officer	22 /01/1998	15/01/2005
5	Song Jong Chol	Admin Assistant	16/01/2005	15/032007
6	Jong Dong Kum	Admin Officer	15/09/2006	Present
7	Kim Yum Mi	Receptionist	03/09/1998	31/10/2004
8	Han Gyong Won	Driver	1995	1997
9	Pae Hak Won	Driver	1995	1999
10	Ri Su Ryon	Driver	1995	1997
11	Ri Jong Nam	Driver	1997	1998

12	Kim kwang Hui	Driver	1998	31/12/2002
13	Ri Sang Ho	Driver	30/10/1999	30 /04/2005
14	Pak Hyon	Driver	02/01/2003	31/08/2006
15	Ko Dae Gil	Driver	04/01/2004	Present
16	Ri Sung Chol	Driver	09/01/2006	15/03/2007
17	Hyon Byong Gwon	Driver, ELO Project	06/11/2001	31/01/2007
18	Kim Yong Suk	UNFPA Driver	2000	
19	Bae Hak Un	Driver #3	2000	
19	O Yung Ryong	FAO Driver	2000	
20	Bae Chun Hwa	Cleaner	1997	19/3/2002
21	Yang Yun Sil	Cleaner	1997	07/01/2002
22	Wi Myong Bok	Cleaner	19/03/2002	2004
23	Ri Hyang Suk	Cleaner	07/01/2002	30/09/2006
24	Pak Son Hwa	Cleaner	10/01/2006	Present
25	Yui Myong Suk	Cleaner/Cook	2004*	
26	Li Yung Suk	Cleaner/Cook	2004*	
27	Li Yong Sil	Cleaner/Cook'	2004*	
28	Ri Un Sil	Canteen Cook	2002-	2004
29	An Yong Ran	Canteen Cook	10/2004:	15/03/2007
30	Kim Chang Son	Gardener	1995	1999
31	Li Gwang Su	Gardener	02/01/1999	15//01/2004
32	Kim Nam Ryong	Gardener	05/10/2004	15/03/2007
Agricultural Recovery & Environmental Protection Project (AREP) STAFF				
1	Jong Song Gap	NPO	06/03/1997	08/2004
2	Hong Chang Bom	NPO	01/08/2004	15/03/2007
3	Ryang Kwon Suk	Program Assistant	1998	2000
4	An Un Bok	Program Assistant	15/03/2000	31/05/2004
5	Kwak Sol Hayang	Program Assistant	13/05/2004	01/05/2006
6	Kim Hui Ok	Program Assistant	21/10/2002	:28/02/2005
7	Song Gui Un	Driver	1998	01/01/2002
8	Kim Yong Sop	Driver	1998	01/11/2002
9	Li Won Sam	Driver	26/11/2002	30/09/2006
10	Hong Jong Hui	Driver	01/11/2002	05/01/2006
11	Ryang Kum Chol	Driver	11/01/2006	15/03/2007
12	Kim Yong Il	Driver	01/09/2006	15/03/2007
13	Li Hye Suk	Cook	26/11/2002	30/09/2006
14	Kim Sun Ok	Cleaner	10/01/2006	15/03/2007
15	Kim Song Won	Gardener	26/11/2002	01/02/2006
Sustainable Rural Energy Development Project (SRED) STAFF				
1	Paek Kyong Chol	Admin Officer	30/11/2006	15/03/2007
2	Kim Jong Ju	Driver	30/11/2006	15/03/2007

*Based on organigram for that year

United Nations DP/2007/15

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.: General
2 April 2007

Original: English

Annual session 2007
11 to 22 June 2007, New York
Item 1 of the provisional agenda
Organizational matters

Report of the first regular session 2007 (23 to 26 January 2007, New York)

Contents

Chapter		*Page*
I.	Organizational matters	2
	UNDP segment	
II.	UNDP strategic plan, 2008-2011 and assessment of programming arrangements, 2004-2007	4
III.	Assessment of programming arrangements, 2004-2007	5
IV.	Country programmes and related matters	6
V.	Evaluation	9
VI.	Gender in UNDP	10
VII.	United Nations Capital Development Fund	10
VIII.	United Nations Office for Project Services	11
	Joint UNDP/UNFPA segment	
IX.	Financial, budgetary and administrative matters	12
X.	Recommendations of the Board of Auditors	12
XI.	Report to the Economic and Social Council	15
	UNFPA segment	
XII.	Country programmes and related matters	20
XIII.	UNFPA role in emergency preparedness, humanitarian response and transition and recovery	20
XIV.	Other matters	21
	Joint session of the Executive Boards of UNDP/UNFPA, UNICEF and WFP (posted on website)	

07-29296 (E) 250407

Permanent Subcommittee on Investigations
UNDP Report - FN 27

I. Organizational matters

1. The first regular session 2007 of the Executive Board of UNDP and UNFPA was held at United Nations Headquarters, New York, from 23 to 26 January.

2. The Executive Board elected the following members of the Bureau for 2007:

President: H.E. Mr. Carsten Staur	(Denmark)
Vice-President: Ms. Fernande Afiavi Houngbedji	(Benin)
Vice-President: H.E. Mr. Iftekhar Ahmed Chowdhury	(Bangladesh)
Vice-President: Mr. José Briz Gutiérrez	(Guatemala)
Vice-President: Mr. Andriy Nikitov	(Ukraine)

3. Upon his election, the new President made an introductory statement that was posted on the web site of the Executive Board secretariat at www.undp.org/execbrd.

4. At the session, the Executive Board approved the agenda and work plan for its first regular session 2007 (DP/2007/L.1) and the report of the second regular session 2006 (DP/2007/1). The Executive Board reviewed the tentative annual work plan 2007 (DP/2007/CRP.1) and the tentative work plan for the annual session 2007, and agreed to finalize both documents following further discussions.

5. Decisions adopted by the Executive Board in 2006 appeared in document DP/2007/2, while decisions adopted at the first regular session 2007 were included in document DP/2007/16, which is available on the web site of the Executive Board secretariat at www.undp.org/execbrd.

6. The Executive Board agreed in decision 2007/12 to the following schedule of future sessions of the Executive Board in 2007:

Annual session 2007:	11 to 22 June 2007
Second regular session 2007:	10 to 14 September 2007.

Statement by the Administrator

7. The Administrator highlighted priority areas for UNDP in its efforts to help United Nations reform as well as achieve the Millennium Development Goals (MDGs). He emphasized accountability and transparency, risk management and organizational restructuring for greater efficiency and results delivery. He stressed the importance of auditing as a way to continue reaching for the highest standards of accountability, further bolstered by the independent audit board and the adoption of the International Public Sector Accounting Standards (IPSAS).

8. He underscored the synergistic role of resident coordinators in the context of ongoing reforms; reiterated that space remained for the unique mandates and roles of United Nations agencies, funds and programmes; clarified the roles of resident coordinators and country directors; and distinguished between his role and that of the Associate Administrator, who was largely responsible for day-to-day operations.

9. Noting the growing inequalities in wealth distribution, the Administrator introduced the concept of 'economic institution building' as a spur to growth that would benefit a wider cross-section of a given society. Cautioning that there was no 'one-size-fits-all' model, he reaffirmed the commitment of UNDP to continue

pressing for gender equality, parity and mainstreaming and sustainable environmental protection and development. He noted the tremendous potential of microfinance and South-South cooperation in national capacity development efforts.

8. Delegations thanked the Administrator for his clear, detailed introduction and encouraged UNDP to maximize use of its structures and competencies to streamline United Nations efforts toward coherence and coordination. They concurred with the focus of the Administrator in continuing to work toward strengthening national ownership, national capacity-building and technical capacity – all key development drivers.

9. In the context of 'One United Nations' pilots, ongoing UNDP work in enhancing the resident coordinator system and removing overlap and redundancies was also appreciated; many delegations asked that work proceed in the area of regional and subregional teams as well. Delegations called for continuing decentralization to achieve greater organizational flexibility and to help UNDP focus more concretely on local priorities and national capacity-building. In support of that goal, they recommended pooling resources and common budgetary frameworks to help ensure relevant local development initiatives.

10. Delegations expressed the need to ensure UNDP had a secure and stable source of core funding from which it could continue to provide services to programmatic countries. They requested that UNDP strengthen partnerships with Bretton Woods institutions such as the World Bank, and with other United Nations system organizations, such as the United Nations Volunteers programme; wider cooperation would help UNDP foster greater harmonization, reinforce operational activities and maximize resources to deliver on-the-ground impact.

11. Several delegations reiterated that deliberations on UNDP operational activities should take place in the context of the triennial comprehensive policy review framework, and emphasized how this would help guide UNDP in its reform leadership. Those same delegations reminded UNDP that its contributions to reform and system coordination are inherently tied to achieving nationally developed targets and the MDGs.

12. Delegations strongly encouraged continued efforts by UNDP to promote gender equality and empowerment, adding that previous work had lacked focus and the needed human and financial resources. More needed to be done in UNDP operational and policy areas, and delegations requested closer collaboration between UNDP and other United Nations organizations – such as the United Nations Development Fund for Women (UNIFEM) – to foster greater harmonization.

13. In discussing the UNDP strategic plan, delegations were generally pleased with its conceptual approach but stressed that the plan should provide a clearer outline of programme choices, delivery, reporting, costing and investments, as well as efficiency gains and accountability. These should be linked to benchmarks to help gauge results. If that approach was adopted, delegations felt that the strategic plan would help bolster the credibility of UNDP and its work.

14. In his response, the Administrator thanked the Executive Board for its comments and reassured members that UNDP would press forward. In developing the strategic plan, continued feedback would be necessary. He suggested that the biggest challenges moving forward revolved around making growth inclusive and

promoting sound economic governance; grassroots development and distribution of productivity and capacity must drive this process.

II. UNDP strategic plan, 2008-2011

15. The UNDP strategic plan outline (DP/2007/CRP.2) was presented by the UNDP Associate Administrator. Delegations noted that the UNDP strategic plan, 2008-2011, was intended to replace the outgoing multi-year funding framework (MYFF) budgetary mechanism.

16. Recognizing the universal, neutral and flexible character of the strategic plan, and its contribution towards results-based budgeting, delegations welcomed the plan but asked for a more goal-oriented format. Some suggested using a logical framework approach, while others recommended a coherent format harmonized with those of other organizations, such as the United Nations Children's Fund (UNICEF) and UNFPA. Delegations discouraged UNDP from providing focus area results by citing anecdotal examples of programmes.

17. Many delegations felt that the strategic plan should use South-South cooperation, national ownership, gender mainstreaming, human security and community-based development as key strategic pillars. Two delegations pointed out that the strategic plan must not be seen simply as a funding framework but rather as a holistic document. It should be configured with reasonable targets and straightforward oversight mechanisms, allowing the Board to conduct its own monitoring, evaluation and analysis of costs and benefits. Enhanced monitoring and reporting at the country level and better integration of a human rights-based approach were also requested.

18. A few delegations asked that the 'lessons learned' from the MYFF be fully considered in developing and finalizing the new plan, while some asked UNDP to consider reverting to indicators and service lines from the MYFF, which they felt gave a clearer idea of actual UNDP activities. Noting how closely the 2011 expiry date of the strategic plan coincided with the 2015 MDG targets, and bearing in mind that planning would already have started on post-2015 goals by that time, one delegation suggested the strategic plan should have built-in flexibility to take post-2015 goals into consideration as a part of the activities under the MDGs focus area.

19. A number of delegations felt that, in the interest of continued alignment and transparency, UNDP should use the terminology of the Development Assistance Committee of the Organisation for Economic Co-operation and Development in its strategic plan.

19. The concept of UNDP working more closely with the United Nations Environment Programme was welcomed by many delegations, although they asked for additional details as to the nature and scope of the cooperation. Delegations also called for continued strategies to bring wider United Nations system coherence in areas of gender. In that regard, they signalled, UNDP should work closely with UNFPA, UNIFEM and UNICEF.

20. All delegations requested continued consultations to help tighten the 'concreteness' of the strategic plan and better understand the specifics of UNDP interventions in areas such as environment, poverty reduction and inclusive growth.

They felt that this would help allay concerns of overlap with other organizations, highlight UNDP comparative advantages and keep the organization focused on its mandate.

21. The Associate Administrator took note of the positive comments on the strategic plan, acknowledging that more work needed to be done to sharpen the focus in areas where UNDP can contribute substantively to development. He assured the Board that far from being ignored, lessons learned from the previous MYFF would form the foundation for organizational options and choices moving forward. He pledged to add a gender dimension to the strategic plan results areas, and reiterated the importance of South-South cooperation in UNDP work.

22. The Executive Board adopted decision 2007/2 on the annotated outline of the UNDP strategic plan, 2008-2011.

III. Assessment of programming arrangements, 2004-2007

23. The Director, Bureau of Management, presented the assessment of programming arrangements (DP/2007/8), highlighting the convergence of the strategic plan, programming arrangements and the biennial support budget. Moving forward, key priorities would include: streamline and simplify programme arrangements; use core resources to generate maximum impact; and continue with the reform agenda.

24. Executive Board members took note of the assessment of programming arrangements and commended UNDP in harmonizing the strategic results framework with the revised programming arrangements and the biennial support budget.

25. Delegations felt that UNDP should continue its work in middle-income countries, but not at the cost of reducing resources for low-income countries. They agreed that core resource allocation should favour least developed and low-income countries. Delegations reminded the organization that it should work toward a human rights-based approach in its programmatic work.

26. One delegation recognized UNDP efforts to address challenges in four key areas, but asked whether these areas had been correctly identified. Other delegations asked that country distribution methodology regarding target for resource assignment from the core (TRAC) 1.1.1 be maintained. New criteria should be cautiously addressed and studied, taking into consideration their possible impact on achieving overall TRAC objectives.

27. One delegation felt that the TRAC 1.1.2 allocation framework and its relationship with TRAC 1.1.1 needed further evaluation. Since regional/global programmes and TRAC 1.1.3 were not covered in DP/2007/8, the delegation asked that assessment and consultations be provided before the annual session 2007.

28. The Executive Board took note of the assessment report on programming arrangements, 2004-2007, in its decision 2007/3.

IV. Country programmes and related matters

29. In introducing the item, the President reiterated that, in accordance with decision 2001/11, country programmes would be approved at each first regular session in January on a no-objection basis, without presentation or discussion, unless at least five Board members had informed the secretariat in writing before the meeting of their wish to bring a particular country programme before the Executive Board.

30. The Executive Board approved, on a no-objection basis, the country programmes for Algeria, Belize, Brazil, Central African Republic, Chile, Croatia, Dominican Republic, Egypt, El Salvador, Eritrea, Ethiopia, Gabon, Gambia, Guinea, Honduras, Jamaica, Lao People's Democratic Republic, Mongolia, Morocco, Mozambique, Panama, Paraguay, Republic of Moldova, Republic of Montenegro, Sao Tome and Principe, Saudi Arabia, Senegal, Seychelles, Somalia, South Africa, Syrian Arab Republic, Tanzania, Thailand, Tunisia, Uruguay, Yemen, Zambia and Zimbabwe.

31. Several delegations expressed satisfaction with the approval of their respective country programmes, and looked forward to continued partnerships with UNDP in national capacity-building and human development. Delegations cited the increased use of cross-cutting approaches and opportunities for national capacity-building in their programmes. One delegation thanked UNDP for its help in designing a violence control programme in response to gang violence in its country. Another thanked UNDP for helping its country transition towards a market economy, pledging to continue striving to achieve the MDGs and the country programme goals in a timely manner.

32. Another delegation mentioned key areas where UNDP assistance and guidance had produced positive results, namely: human rights, women's rights and the revision of family, labour and criminal codes. Democratic development, eradication of poverty and sustainable development were listed as key issues to be tackled with UNDP support.

Democratic People's Republic of Korea

33. Following extensive consultations with Executive Board members, the Associate Administrator outlined steps towards a resolution and approval for the country programme for the Democratic People's Republic of Korea. These included: a full external audit of the country programme by the Board of Auditors within three months; adjustment of the content and modalities of implementation of the new programme; maintenance of total resource allocation at $17.9 million; extension of the implementation of the 2005-2006 country programme under direct execution; an end to all hard-currency payments by 1 March 2007; oversight of projects during the transition period through onsite inspections, starting immediately; and control of acquisitions and use of project equipment. The full text of the Associate Administrator's statement follows:

With regard to the country programme for the Democratic People's Republic of Korea, allow me to make a few remarks.

Following extensive consultations with members of the Executive Board on the country programme, we would like to suggest a way forward to address the concerns that have been raised. Let me emphasize that UNDP, as a general rule and

practice, only can and will operate country programmes as requested and approved by the Executive Board. It is in this context that the following submission to the Executive Board should be understood as an outcome of consultations. It is intended to be an approach that is in the collective interests of all to ensure that ongoing activities and new activities continue to meet the standards that UNDP would like to see everywhere in the world, recognizing situations where we have to work in very complex circumstances.

With your support, the way forward for the work of UNDP in the DPRK would be based on the following intended steps, to be taken under the Administrator's authority:

(a) Conduct an external audit of the DPRK country programme to be completed by the Board of Auditors within a three-month time frame, as per the Secretary-General's proposal of 22 January 2007. The review will be conducted in compliance with international standards of auditing and within the provisions of Article VII of the United Nations financial regulations governing activities of the Board of Auditors;

(b) Adjust the content and modalities of implementation of the new programme (2007-2009), confined to supporting sustainable human development objectives, while maintaining the total resource envelope at $17.91 million;

(c) The Executive Board will take action on the new programme at such time as the adjustments required under paragraphs 1 and 2 have been made;

(d) With all implementation under DEX and/or agency execution modality, extend implementation of remaining parts of projects under the 2005-2006 country programme to support sustainable human development objectives;

(e) Ensure implementation, by 1 March, 2007 at the latest, of measures to:

(i) End all payments in hard currency to government, national partners, local staff and local vendors;

(ii) Discontinue sub-contracting of national staff via government recruitment; and

(f) Within the existing monitoring policy, further implementation of a monitoring and evaluation plan to ensure oversight of projects, including ensuring that on-site inspections take place without delays during the transition period, and controls on the acquisition and use of project equipment.

Thank you for your consideration.

34. The President of the Board reiterated that extensive consultations had taken place between delegations and the Administrator in elaborating the way forward. He explained that, in accordance with decision 2006/36, once the required adjustments to the country programme had been made, the revised country programme document would be posted on the Executive Board website for Board approval on a 'silent procedure' basis. The no-objection period would last six weeks. The full text of his statement follows:

It is my understanding that wide consultations have taken place with regard to the elaboration by the Administrator of the proposal on how to take this forward.

I would like to clarify my understanding of how we will now proceed. As soon as the required adjustments have been made, UNDP will submit the revised country programme document for approval by the Board on a silent procedure basis by placing it on the Executive Board website, in accordance with the procedure

contained in decision 2006/36. The no-objection period will be six weeks in duration.

I take it that the Board would wish to support the approach taken by the Administrator and in this respect takes note of the Administrator's statement.

Thank you very much. I would now, as President of the Board, like to express my deep appreciation to the Administrator for the leadership and action which he has taken and to confirm that in taking this approach the Administrator has the full support of the Board.

Let me also take this opportunity to sincerely thank all members of the Board for the constructive spirit in which we have been able to reach an agreement.

My statement will be recorded in full in the report of this session.

35. No objections were raised to the way forward proposed by the President.

36. The President expressed deep appreciation for the leadership provided by the Administrator and confirmed that, in taking the approach outlined, he enjoyed the full support of the Board. The President thanked delegations for the constructive spirit in which the agreement had been reached.

37. In the ensuing discussions, one delegation called for continued monitoring of country programmes to ensure that UNDP remained meaningful, accountable and 'for the people' at the country level, continuing to focus on humanitarian and development needs and remain responsible for transparency and accountability in accordance with international standards.

38. Another delegation reiterated that Member States are committed to abide by the Charter of the United Nations. Countries not complying with Security Council resolutions are in violation of their obligations and should not receive United Nations funds, particularly for programmes with strong economic and social development features aimed at supporting the government. Assistance to such countries should be of a humanitarian nature, and delivered directly to the people in need.

39. Other delegations cautioned against the Board's becoming partisan, and voiced strong support for a neutral, non-political forum. Delegations opposed the manipulation and politicization of the operational activities and discussions of the Board, arguing that these undermined the work of UNDP.

40. One observer delegation asked why the Board was caught up in 'miserly interests' when there were pressing issues to address, such as achieving the MDGs and having more countries pledge 0.7 per cent of their gross domestic product to development activities. That delegation expressed concern about the potentially negative precedent being set by reopening the debate on the country programme of the Democratic People's Republic of Korea.

41. Several delegations reaffirmed the universality, neutrality and demand-driven nature of country programmes, and underscored the importance of national ownership. They stated that Member States should refrain from politicizing the work of the Executive Board.

42. The delegation from the Democratic People's Republic of Korea objected to reopening the discussion of its country programme. It reiterated that the country programme document had been formulated on the basis of the United Nations strategic framework through governmental-United Nations consultations and had

been received with positive consideration at the second regular session 2006. The delegation stressed that it would reject assistance tied to political conditions, and agreed to the measures introduced by UNDP as a way to resolve the situation and avoid setting a negative precedent.

V. Evaluation

43. Delegations thanked the Director, Evaluation Office for introducing evaluations on: UNDP assistance to conflict-affected countries (DP/2007/3); the National Human Development Report system (DP/2007/5); and the joint assessment on the cooperation agreement between the United Nations Industrial Development Organization (UNIDO) and UNDP and the joint UNDP-UNIDO management response (DP/2007/7). They also thanked the Associate Administrator for the management responses to UNDP assistance to conflict-affected countries (DP/2007/4) and the National Human Development Report system (DP/2007/6).

44. Regarding the evaluations of the National Human Development Report system and the joint assessment agreement between UNIDO and UNDP, most Executive Board members welcomed the reports and agreed with the recommendations outlined. Delegations expressed support for the management response to fulfilling evaluation recommendations, adding that the reports should be used in ongoing dialogue for human development, strengthening national ownership of the report and working to preserve the quality of reporting. Members were supportive of building a stronger relationship between UNDP and UNIDO.

45. Delegations expressed continued support for the important dual responsibility of UNDP as leader in early-recovery situations and coordinator of development activities. However, many Board members felt that the recommendations on UNDP assistance to conflict-affected countries were outside the mandate of the organization, and that discussions at the Economic and Social Council and the General Assembly would be required before they could be implemented.

46. Those delegations expressed concern that management had begun acting on evaluation outcomes before approval, particularly in the context of lack of intergovernmental discussions on the UNDP strategic plan. They requested withdrawal of the two reports, and expressed concern that the evaluation report and management response appeared to be building a new framework based on non-agreed-upon concepts and building structural linkages with other organizations with different mandates. They felt that the evaluation and the response needed further study and that a decision would be inappropriate at this point. They asked that UNDP continue to foster development competencies while refraining from engagement in the political aspects of conflict. They requested that UNDP review its management response to the evaluation in the light of views expressed by Member States, and present a revised response for consideration by the Board at its annual session 2007, subsequent to further briefings and informal consultations.

47. The Executive Board adopted decision 2007/4 on the evaluation of UNDP assistance to conflict-affected countries; 2007/5 on the evaluation of the National Human Development Report system; and 2007/6 on the joint assessment of the progress in the implementation of the cooperation agreement between UNIDO and UNDP.

VI. Gender in UNDP

48. The Associate Administrator introduced two documents to be discussed under this agenda item: the 2006 progress report on the implementation of the gender action plan (DP/2007/9) and the follow-up to the report of Administrator on the organizational assessment of UNIFEM (DP/2007/10). He highlighted the comprehensive gender activities of UNDP in 2006; introduced the recently-appointed Director of the UNDP gender team; and highlighted the memorandum of understanding with UNIFEM to guide joint programming and capitalize on UNIFEM expertise and knowledge.

49. Executive Board members thanked the Associate Administrator for outlining progress in the area of gender. They confirmed it as a key 'development driver', recognized UNDP efforts to implement its gender action plan and establish its gender steering and implementation committee, and reaffirmed that more work remained to be done.

50. Many delegations asked UNDP to enhance the tracking, monitoring and reporting of concrete gender results linked to achieving the MDGs. Those delegations felt that UNDP must continue to strengthen the ability of United Nations country teams (UNCTs) to integrate gender-related results into programming.

51. Delegations requested further information on joint exercises between UNDP and UNIFEM and on coherence and comparative advantages. Many thought UNDP should better maximize the technical contributions of UNIFEM at the country level – whether the organization was resident in a given country or not.

52. Several delegations asked UNDP to provide a more detailed outline of the human and financial resources required to implement the gender action plan. Those delegations noted that work on gender equality issues required people and budget, and that while the initial $10 million allocated in 2006 was a good start, new and meaningful investments would accelerate progress. Those delegations would be reviewing the amount budgeted as an indication of the priority accorded to gender by UNDP.

53. One delegation reiterated the importance of ensuring that gender issues not be seen as 'add-ons' to the strategic plan, but as a core element, with measurable results. In that light, UNDP must do a better job analysing and communicating achievements and results.

54. The Executive Board adopted decision 2007/7 on the annual progress report of the Administrator on implementation of the gender action plan and follow-up to the report of the Administrator on the organizational assessment of UNIFEM.

VII. United Nations Capital Development Fund

55. The Associate Administrator of UNDP and the Executive Director of the United Nations Capital Development Fund (UNCDF) opened the session with a brief overview of the strategic agreement between UNDP and UNCDF (DP/2007/11).

56. Delegations were pleased with the rapid progress of the organization in connection with resources, function and structure in the context of United Nations reform. They underlined the important role that UNCDF plays on the ground in least developed countries (LDCs), noting with appreciation that the presentation made by the Executive Director showed that a results-based approach was not just theoretical.

57. Many delegations stressed that, while discussion on complementary strengths and strategic partnerships in the context of the evolving UNDP strategic plan was important, the independence of UNCDF must not be threatened. They added that UNCDF demonstrably provided unique, efficient and effective services to LDCs.

58. Some delegations expressed appreciation for the integration of local development and microfinance practice areas into the key results of the UNDP strategic plan, and encouraged increased harmonization in evaluation, monitoring and reporting practices. One delegation called for strengthening of UNCDF core resources, suggesting that current levels are unsatisfactory and could impede the fulfilment of its mandate. In that regard, UNCDF should further diversify its funding base.

59. One delegation cautioned against implementing the recommendations of the High-level Panel prematurely. Others asked to see continued capitalization by UNDP and UNCDF of comparative advantages, knowledge sharing and joint programming for effective results and to create an enabling environment for sustained economic growth.

60. The Executive Board adopted decision 2007/8 on the strategic partnership between UNDP and UNCDF.

VIII. United Nations Office for Project Services

61. Delegations thanked the Executive Director, United Nations Office for Project Services (UNOPS) for his presentation of the report on the financial, administrative and operational situation (DP/2007/12) of the organization. They reiterated their support for UNOPS in finding long-term solutions to its financial issues and the challenges facing the organization.

62. Delegations welcomed the news of a small operational reserve, and generally supported UNOPS-proposed changes to the reporting schedule. They requested regular information in that regard, possibly at each Board session.

63. Bearing in mind the experiences acquired and lessons learned from the UNOPS 'housecleaning,' one delegation asked UNOPS to review its business processes and work toward implementing standard operating procedures to streamline inter-fund operations with UNDP. That delegation asked UNOPS to strengthen the capabilities of developing countries in project management and procurement.

64. Several delegations expressed concern over the level of the operational reserve, noting that for four years it has been below the threshold requested in decision 2001/14. Many supported the ongoing study of a merger proposal between UNOPS and the Inter-Agency Procurement Service. They saw it as beneficial to UNDP, UNOPS and the wider United Nations system, and asked for additional information

on: who is undertaking the study; reporting schedule and terms of reference; and risks and financial implications emerging from the study.

65. The Executive Board adopted decision 2007/9 on the report on the financial and operational situation of UNOPS.

Joint UNDP/UNFPA segment

IX. Financial, budgetary and administrative matters

66. On behalf of UNDP and UNFPA, the Deputy Executive Director (External Relations, United Nations Affairs and Management), UNFPA, introduced the joint report on the implementation of the International Public Sector Accounting Standards (DP/2007/13-DP/FPA/2007/4).

67. There were no interventions by delegations under the agenda items on Financial, budgetary and administrative matters.

68. The Executive Board adopted decision 2007/10: Joint UNDP and UNFPA report on the implementation of the international public sector accounting standards and reports on the implementation of the recommendations of the Board of Auditors, 2004-2005 (UNDP and UNFPA).

X. Recommendations of the Board of Auditors

United Nations Development Programme

69. Delegations thanked the Associate Administrator for introducing the UNDP report on the implementation of the recommendations of the Board of Auditors 2004-2005 (DP/2007/14), recognizing that it was the first audit of the organization since the implementation of Atlas.

70. Several delegations requested follow-up on control and fraud prevention mechanisms, noting that accountability must be a top management priority. They recognized the complexity of the present environment and encouraged UNDP to move quickly to ensure sound financial due-diligence practices. They appreciated the support accorded by UNDP to rigorous staff certification and skills upgrading, which they cited as key to establishing solid common financial practices.

71. With respect to Atlas, several delegations recognized its capacity to track planned expenditures, inform high-level management decisions, and function as a strategic planning tool. Two delegations asked for a special status report on Atlas outlining the remaining problems and corrective measures UNDP is taking.

72. Those delegations noted that missing audit reports are problematic, since reference is then made to incomplete reporting from national authorities. Since country offices are spread around the globe and not all offices can deliver timely reports, the delegations felt that better 'safety nets' should be in place to compensate, permitting more accurate follow-up and monitoring.

73. Several delegations emphasized that full, timely implementation of audit recommendations was a key management responsibility. They requested access to internal audit reports as a way of enhancing transparency and accountability, and urged the organization to work on areas that put its assets at risk due to fraud, waste, or mismanagement. One delegation outlined what it considered priority interventions for UNDP: untimely bank reconciliations; unfunded liabilities; internal control weaknesses in Atlas; weak financial controls over nationally-executed projects; weak procurement practices; and low audit coverage of country offices and headquarters, particularly with respect to financial records, procedures and controls. The delegation stressed the need for sufficient funding to the UNDP Office of Audit and Performance Review.

74. The delegation highlighted the fact that the United Nations is now providing access to Member States to the reports of the Office of Internal Oversight Services (OIOS). The delegation called upon UNDP and UNFPA to follow this trend and make available to Executive Board members all reports of their internal audit offices. In response, the Associate Administrator stated that it was the intention of UNDP to share these reports with Board members. Several delegations asked for enhanced interaction at the annual session on audit and risk management issues. They requested discussions with the external audit committee on internal audit reports and, in future, increased interaction between the Executive Board and the Board of Auditors.

75. The Executive Board adopted decision 2007/10 on the joint UNDP and UNFPA reports on the implementation of the recommendations of the Board of Auditors, 2004-2005 (UNDP and UNFPA).

United Nations Population Fund

76. The Deputy Executive Director (External Relations, United Nations Affairs and Management), UNFPA, introduced the UNFPA report on follow-up to the report of the United Nations Board of Auditors for 2004-2005: Status of the implementation of recommendations (DP/FPA/2007/1). She noted that supplementary information had been provided and an updated table (attached to her statement) had been circulated providing information on the current status of implementation of recommendations, as of 24 January 2007.

77. Delegations noted that in general the UNFPA response to implementing the recommendations of the Board of Auditors had been satisfactory. They noted that UNFPA had sound financial management and acceptable control mechanisms. They welcomed the steps taken to further improve control mechanisms and fraud prevention and encouraged continued efforts to make accountability a top priority and to strengthen the Fund's risk management and accountability systems. They noted a specific concern regarding projects implemented by governmental and non-governmental partners, namely, that the Board of Auditors had noted that a number of reports had not been made available and that a significant number of qualifications were noted on the reports that had been made available. Delegations were pleased to note that UNFPA had established a task force to deal with national execution issues. They appreciated the information given regarding measures that would be taken to strengthen capacity-building and improve accountability and transparency. They were interested in knowing what was being done to safeguard controls and procedures at the country level, including ensuring compliance by

implementing partners. While observing that not all country offices could be expected to deliver fully on results at all times, they suggested having safety nets in place to compensate.

78. In view of the high priority accorded to results-based management, delegations underscored the need for all country offices and units at headquarters to comply with annual reporting requirements. They also stressed the importance of country offices providing reports for specific projects undertaken with earmarked donor funding and urged UNFPA headquarters to intervene to ensure compliance. Some delegations expressed a desire to have more interaction at Executive Board sessions on audit and risk management issues, including holding a discussion with the Audit Advisory Committee at the annual session 2007. They also expressed the wish to have an interaction with the United Nations Board of Auditors. Some delegations requested that the report of the United Nations Board of Auditors be posted on the UNFPA website soon after it becomes available in July or August. Two delegations asked that internal audit reports be made available.

79. The Deputy Executive Director, UNFPA, thanked the delegations for their constructive comments. She noted that some of the information requested was contained in the updated table that had been circulated. Concerning the comments regarding national execution, she emphasized that to safeguard controls, UNFPA was promoting capacity-building for staff in the country offices as well as for national counterparts. She noted that the harmonized approach to cash transfer was very important and that UNFPA was making an extra effort to utilize that modality. She added that UNFPA was working to ensure that audit guidelines were clear and easy to use. She agreed that timely reporting to donors was very important and noted that UNFPA was developing an online report generation and tracking system to enhance compliance with reporting requirements. Regarding country office annual reporting, she stated that vigorous follow-up was under way and managers would be held accountable for compliance. The Deputy Executive Director reiterated the Fund's commitment to national execution and assured the Executive Board that internal management controls were in place as UNFPA moved forward.

80. The Director, Division for Oversight Services, UNFPA, stated that UNFPA based its audit and risk management on a risk model. He noted that in the private or para-public sectors internal audit reports were internal documents and were not communicated to shareholders. They were disclosed to the auditee, senior management and the audit committee, and sometimes to the Board. Many public supreme audit entities published an annual consolidated report, as was the case in the United Nations. UNFPA adhered to the professional standards and to the code of ethics of the Institute of Internal Auditors. The code prescribed that "internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so". In that regard, UNFPA followed the policy agreed upon by the Chief Executives Board for Coordination, chaired by the Secretary-General. Thus, any change in the policy would have to be made at that level.

81. Concurring with the importance of transparency, he invited the Executive Board to go beyond the issue of confidentiality of internal audit reports and consider, instead, the question of assurance. In the case of UNFPA, assurance was the process through which the auditors expressed a conclusion designed to enhance the degree of confidence the Executive Board had in the quality of governance in UNFPA.

Assurance was therefore the cornerstone of trust. He stated that for the past two years, the UNFPA Executive Director had been working to enhance the reliability of assurance provided to the Board. There were three levels of interlinked assurance: (a) the annual report of the Executive Director on internal audit and oversight activities; (b) the report by the United Nations Board of Auditors; and (c) the assurance provided by the independent Audit Advisory Committee. (He noted that the Chair of the committee was currently present in the room). In UNFPA the conditions were met by the terms of reference of the Audit Advisory Committee and by the charter of internal auditing, and by the right and duty to access the President of the Executive Board should any serious risk arise.

82. The Executive Board adopted decision 2007/10: Joint UNDP and UNFPA report on the implementation of the international public sector accounting standards and reports on the implementation of the recommendations of the Board of Auditors, 2004-2005 (UNDP and UNFPA).

XI. Report to the Economic and Social Council

83. On behalf of UNDP and UNFPA, the Assistant Administrator, Bureau for Resources and Strategic Partnerships, introduced the joint report to the Economic and Social Council (E/2007/5).

84. Delegations were pleased that the report demonstrated the efforts and results achieved by UNDP and UNFPA to achieve greater harmonization and coordination, for example in the field of information technology and knowledge sharing. They were especially impressed by the joint UNDP and UNFPA section providing analysis on the implementation of the recommendations of the triennial comprehensive policy review.

85. Delegations appreciated the efforts to further strengthen the resident coordinator system and to adjust United Nations activities at the country level to national development priorities and to align them to the national programme cycles. They called for enhanced participation of specialized agencies as well as non-resident agencies in United Nations country teams and welcomed the improved guidelines and training on the common country assessments and the United Nations Development Assistance Frameworks.

United Nations Development Programme

86. Delegations appreciated the improved guidelines and training on the common country assessment and the United Nations Development Assistance Framework, which they felt helped to strengthen the United Nations at the country level and improved the coherence of its operational activities. They recognized efforts to reinforce and optimize the resident coordinator system to better align United Nations activities to national development priorities and national programme cycles.

87. One delegation stressed the need for continued South-South cooperation, commending UNDP in building relations with the World Bank and working to mobilize international support for national efforts.

United Nations Population Fund

88. Delegations appreciated UNFPA efforts to assist developing countries and countries with economies in transition to achieve the Millennium Development Goals. They noted with interest the capacity-building tools on gender budgeting for reproductive rights developed by UNFPA in collaboration with UNIFEM, and wondered if the tools had been evaluated. They were pleased to note the expansion of UNFPA activities in such important areas as protection of the interests of and advancement of women, combating trafficking in persons, and HIV/AIDS prevention. They asked why information on UNFPA efforts in the areas of emergency preparedness and humanitarian response had not been included in the report. They welcomed the support UNFPA provided to interested programme countries in the area of population policies, including increasing access of young people to sexual and reproductive health services.

89. The Director, Technical Support Division, UNFPA, thanked the delegations for their constructive comments. He stated that UNFPA placed great emphasis on capacity-building in the area of gender, including supporting training to address gender-based violence, including sexual violence. He noted that the gender budgeting tools were still in the process of being introduced and an evaluation would be carried out at a later stage. Regarding UNFPA work in the areas of emergency preparedness and humanitarian response, he noted that it had been reported on earlier in session under the agenda item on UNFPA role in emergency preparedness, humanitarian response and transition and recovery.

90. The Executive Board took note of the Joint report to the Economic and Social Council (E/2007/5).

UNFPA segment

Statement by the Executive Director

91. The UNFPA segment began with the opening statement of the Executive Director (the full statement is posted on the web site http://www.unfpa.org/exbrd/2007/2007_first.htm). The Executive Director underscored that in a time of change for the United Nations, UNFPA was ready for change. She focused on her vision of UNFPA continuing to lead in assisting countries in implementing the agenda of the International Conference on Population and Development (ICPD) and working with programme countries and other development partners to achieve greater impact. She highlighted elements of the Fund's emerging strategic plan, 2008-2011. She indicated how UNFPA planned to take full advantage of the opportunities created by United Nations reform and the new aid environment to achieve its core goals.

92. She underlined the centrality of reproductive health to achieving the MDGs. She underscored that UNFPA was working to ensure that the right to sexual and reproductive health and access to services was guaranteed in laws and policies, fully integrated in development and humanitarian plans and budgets, and made real through strengthened health systems. She noted that UNFPA was working to mainstream gender in all the work it did with development and humanitarian partners.

93. The Executive Director updated the Executive Board on the Fund's financial situation in 2006: total core income was approximately $362 million and non-core was close to $160 million. She highly appreciated that a total of 180 countries had provided financial contributions to UNFPA, including all countries from sub-Saharan Africa and Latin America and the Caribbean. She conveyed special thanks to the Fund's top ten donors: The Netherlands, Sweden, Norway, United Kingdom, Japan, Denmark, Germany, Finland, Canada and Switzerland. She also thanked all the other donors. The Executive Director highlighted new initiatives within UNFPA to enhance accountability to ensure that UNFPA resources were spent well.

94. Delegations applauded the Executive Director and praised the statement for being inspiring and comprehensive. They expressed strong support and appreciation for the work of UNFPA and were pleased to note the increase in resources during 2006, as well as the expansion of the Fund's donor base. Several delegations, including Netherlands, Spain and Sweden, announced increases in their contributions to UNFPA. Delegations commended UNFPA for its work and efforts being in line with the triennial comprehensive policy review and the Paris Declaration, and for its commitment to national ownership and leadership. They appreciated the active role played by UNFPA in the United Nations Development Group (UNDG). They commended the Fund's strong commitment to and engagement in United Nations reform, including the Executive Director's role as chair of the High-Level Committee on Management. They were confident that UNFPA would continue to play a constructive role in the endeavours to achieve system-wide coherence. They welcomed the Fund's work to promote a clear division of labour across the United Nations system to catalyse greater progress on maternal and child health. Delegations applauded the Executive Director's emphasis on accountability and oversight, strong auditing capacity and sound financial management. Delegations highlighted the critical importance of the ICPD agenda for achieving the MDGs and winning the fight against poverty. Some delegations welcomed the proposed new reproductive health target under MDG 5. The commitment of the Executive Director and of UNFPA to implementing Security Council resolution 1325 on women, peace and security was appreciated and delegations hoped that there would be a coherent action plan to implement the resolution with a clear division of labour among the concerned agencies and organizations. Delegations thanked UNFPA for its support to the African Union's special session on reproductive health and welcomed the Maputo Plan of Action 2007-2010.

95. Delegations pointed out that with regard to joint programmes and the 'One UN' pilot studies that were being undertaken, UNFPA had a strong and indispensable role in ensuring that the ICPD agenda was an integral part of the operational activities of the United Nations. They hoped that the pilot studies would yield concrete, measurable results in the area of reproductive health and rights, and also identify the benefits and limitations of 'One UN' programmes. They urged UNFPA to play a strong role in the United Nations country teams. They called on Member States to constructively guide UNFPA in its efforts to adapt and respond to the new aid environment and noted the need to strengthen UNFPA at several levels, including its financial base. They observed that a people-centred, community-based, bottom-up approach, which was an important element of human security, should be a pervading principle of United Nations reform. The need to consolidate the work on

humanitarian reform, including the cluster-lead approach was stressed. It was noted that UNFPA had a vital role in emergency preparedness and humanitarian response.

96. Delegations welcomed the decision to postpone consideration of the item on regionalization and were pleased to note that it would be part of the Fund's strategic plan 2008-2011. They supported the points raised by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and looked forward to seeing regionalization further harmonized with the Fund's strategic plan and aligned with other United Nations agencies. Noting the initiative under way to strengthen and streamline United Nations technical support through regional hubs, it was observed that there should be a unified approach to the regional and subregional structure, including co-location of subregional entities. Delegations stressed the need to ensure country ownership and hoped that regionalization would not result in increased bureaucracy or costs.

97. Delegations welcomed the draft strategic plan outline and looked forward to having a series of informal consultations as UNFPA moved forward in shaping the plan. They noted that it was not possible to work on reproductive health without working on gender equality and women's empowerment. They were pleased to note the inclusion of gender in the strategic plan, both as a specific goal and as a cross-cutting programme principle. The need to increase capacity-building on gender throughout the organization was emphasized. It was stressed that the work with young people and adolescents should have a prominent place in the strategic plan. Delegations underscored that the strategic plan should be used as a results-based management and resource allocation tool. The relationship between results and resource allocation should be informed by a strong accountability framework, including improved monitoring and reporting systems with results measured by clear outcome indicators. Delegations encouraged UNFPA to continue working with UNDP on a harmonized approach to their respective strategic plans, reflecting the lessons learned from the previous multi-year funding frameworks.

98. Delegations stated that they highly valued the Fund's contribution to HIV/AIDS prevention and its crucial role in the Global Task Team on Improving AIDS Coordination (GTT). Referring to the joint United Nations programming on HIV/AIDS, one delegation asked what incentives had been created to motivate agencies towards more unified programming; how would performance on that be measured; and what had been the progress in removing practical barriers to unified programming at country level. The delegation stated that it would be reviewing its financing criteria so that only unified programmes on HIV/AIDS, that supported country-led responses, would be funded. Regarding the Global Programme to enhance reproductive health commodity security, it was acknowledged that UNFPA had a leading advocacy role in the capacity development of countries to incorporate sexual and reproductive health into their development agendas and health budgets. The cooperation of UNFPA in the Reproductive Health Supplies Coalition, an international partnership chaired by Germany and the Netherlands, was also noted.

99. Delegations commended UNFPA commitment to results-based management and programming and to taking a strategic approach to improving results and visibility. Observing that evaluation and assessment of programming at the country level was highly important, they underscored the need for close involvement of the concerned programme country in developing indicators and instruments for

monitoring and evaluation. The need to continue promoting South-South cooperation was also emphasized.

100. The delegation of Japan, and numerous other delegations, gave high praise to Mr. Waki, the outgoing UNFPA Deputy Executive Director (Programme), for his excellent work in the field of development and the strong leadership and service that he had provided.

101. The Executive Director thanked the delegations for their constructive and supportive comments. Concerning regionalization, the Executive Director noted that the postponement would allow UNFPA to address the concerns raised by the Member States and the ACABQ. She stated that any change in the organizational structure would be an expression of the strategic plan: the strategic plan would articulate how the regional structure would equip UNFPA to support its strategic goals in assisting countries in implementing the ICPD agenda, and in achieving programmatic outcomes by making the best use of available resources at country, regional and global levels. She assured the Executive Board that UNFPA would continue to engage with the other UNDG Executive Committee agencies on United Nations reform and on the issue of regional alignment and co-location. She agreed that regionalization was in line with United Nations reform and would not create an additional layer of bureaucracy. Regarding the UNFPA strategic plan, 2008-2011, she stated that there would be further discussion at the informal meeting later in the afternoon. In the meanwhile, she welcomed the support expressed for gender, and youth. She also concurred with the strategic importance of South-South cooperation.

102. The Executive Director underscored that United Nations reform was an opportunity to advance the ICPD agenda. Concerning the query regarding agency incentives and the division of labour among agencies on maternal and child health and HIV/AIDS, she pointed to the various measures for incentives and accountability of the United Nations country team, including the 360 degree performance assessments of the Resident Coordinators and country team members. She appreciated the comments from delegations commending the role of UNFPA in the area of HIV/AIDS prevention. She acknowledged the leadership role of the United Kingdom in the GTT process and underscored that UNFPA was firmly committed to implementing the GTT recommendations. The Fund had communicated the GTT recommendations to all UNFPA country offices and through a series of regional training programmes had strengthened the capacity of UNFPA Representatives and HIV focal points on GTT follow-up and the division of labour amongst agencies. Recognizing the importance of promoting a unified approach at country level, UNFPA had also encouraged and actively supported UNFPA Representatives to serve as chairs of United Nations theme groups and, where that had occurred, much progress had been achieved. She agreed that it was important to remove any remaining practical barriers to joint programming. In that regard, she welcomed the decision of one donor country to review its financial criteria so that only unified programmes would be supported. She observed that such funding decisions could help to bolster United Nations reform.

103. The Executive Director expressed appreciation for the leadership provided by the Netherlands and Germany to the Reproductive Health Supplies Coalition. Regarding the UNFPA Global Programme to enhance reproductive health commodity security, she noted that it had been developed in consultation with key partners and in line with the principles of national ownership and leadership, which

were also enshrined in the Paris Declaration. The Global Programme provided resources to build capacity in countries in reproductive health commodity security and logistics management. She noted that reproductive health commodity security was also a priority issue for the Maputo Plan of Action and UNFPA would continue working in that area with countries in Africa and in other regions.

104. Regarding Security Council resolution 1325 on women, peace and security, the Executive Director took special note of the statement by one delegation that it would seek to ensure that various elements of resolution 1325 took effect. She stressed that UNFPA was firmly committed to concrete and active implementation of the resolution. UNFPA had developed a strategy for gender mainstreaming in conflict and post-conflict situations, with a focus on reproductive health, HIV/AIDS, gender-based violence and trafficking. She highlighted that the work in response to resolution 1325 was being undertaken in close partnership and coordination with other agencies and actors. She added that capacity-building on gender was part of overall staff development at UNFPA. The Executive Director concluded by thanking the Executive Board for its guidance and support.

XII. Country programmes and related matters

105. The Executive Board approved 33 UNFPA-supported country programmes on a no-objection basis, without presentation or discussion, in accordance with decision 2001/11. The following programmes were approved, from Africa: Central African Republic, Eritrea, Ethiopia, Gabon, Gambia, Guinea, Mozambique, Sao Tome and Principe, Senegal, South Africa, United Republic of Tanzania, Zambia and Zimbabwe; from Arab States, Europe and Central Asia: Algeria, Egypt, Morocco, Republic of Moldova, Syrian Arab Republic, Tunisia and Yemen; from Asia and the Pacific: the Democratic People's Republic of Korea, Lao People's Democratic Republic, Mongolia, Myanmar and Thailand; and from Latin America and the Caribbean: Brazil, Dominican Republic, El Salvador, English- and Dutch-speaking Caribbean countries, Honduras, Panama, Paraguay and Uruguay.

106. Following the approval of the country programmes, the delegations of Antigua and Barbuda, Egypt, El Salvador, Panama, Republic of Moldova, Syrian Arab Republic and the United Republic of Tanzania took the floor to thank the Executive Board for approving the programmes and to express appreciation for UNFPA support and close collaboration in assisting the countries in achieving the goals of the International Conference on Population and Development and the Millennium Development Goals. The delegation of Japan commended UNFPA for making the utmost efforts to improve the quality of life of the people in the Democratic People's Republic of Korea. The delegation requested UNFPA to closely monitor the implementation of the programme to ensure that the maximum benefits were delivered to the neediest individuals, in particular women and youth. The delegation of the United States of America requested that a comprehensive audit of the programme be carried out in the Democratic People's Republic of Korea. The delegation underscored the importance of strict adherence to the United Nations rules and procedures, including rules relating to monitoring, evaluating and auditing implementation of projects. The delegation of the Democratic People's Republic of Korea emphasized that monitoring and evaluation were important processes of the

country programme implementation and regular monitoring visits to project sites had been undertaken.

XIII. UNFPA role in emergency preparedness, humanitarian response and transition and recovery

107. The Chief of the Humanitarian Response Unit (HRU), UNFPA, provided an oral report on the Fund's humanitarian strategy, in accordance with decision 2006/35. She noted that supplemental information had been provided earlier to the Executive Board and was also posted on the UNFPA web site. The oral report focused on partnerships; monitoring and evaluation; funding mechanisms; and the integration of the humanitarian response strategy into the Fund's strategic plan and global and regional programmes.

108. Delegations appreciated UNFPA efforts in the area of emergency preparedness, humanitarian response and transition and recovery. They underscored the valuable work of UNFPA in protecting vulnerable groups, including women and children in conflict situations. They welcomed the Fund's strategy and the useful oral report. They requested additional information regarding the integration of the humanitarian strategy into the UNFPA strategic plan, 2008-2011. One delegation recommended staff capacity development and strengthening of monitoring and evaluation, including identification of robust indicators.

XIV. Other matters

109. The Executive Board held the following informal meetings:

UNDP. (a) Informal consultations on draft decisions; and (b) an informal briefing on parliamentary reform;

UNFPA. An informal consultation on the UNFPA strategic plan, 2008-2011, and other related matters. The Executive Board adopted decision 2007/11: Draft outline of the UNFPA strategic plan, 2008-2011.

United Nations Development Programme
The Associate Administrator

1 June 2007

Dear Mr. Saha,

I am pleased to provide you, for your consideration, a copy of the United Nations Development Programme's management response to the Special Audit of the United Nations Operations in the Democratic People's Republic of Korea.

UNDP stands ready to clarify any questions that the Advisory Committee on Budgetary and Administrative Questions (ACABQ) may have.

Yours sincerely,

Ad Melkert

Mr. Rajat Saha
Chairman
ACABQ

cc. H.E Mr. Ban Ki-Moon
Secretary-General
United Nations

Permanent Subcommittee on Investigations
UNDP Report - FN 34

UNDP management response to the Special Audit of the United Nations Operations in the Democratic People's Republic of Korea

1 June 2007

Introduction

UNDP has implemented the Democratic People's Republic of Korea (DPRK) programme in accordance with the decisions of the Executive Board and UNDP Financial Regulations and Rules. The conditions under which UNDP has had to operate in DPRK were unusual and in the last 27 years a variety of practices were adopted to meet the expectations of the Government without which the Programme would not have been delivered.

UNDP wishes to emphasize that the flow/exchange of hard currency made available for the DPRK Programme as mandated by the Board for implementation and cooperation with the Government of DPRK is inevitable. This reality has to be seen in the context of the modest UNDP Programme in DPRK.

In this respect, the UNBOA has confirmed, in the Report of the Board of Auditors on the Special Audit of DPRK, that UNDP, from 2002-2006, had an average Programme expenditure per annum of $2.6M.

For many years UNDP took the lead in requesting the DPRK Government to conform to international practices, however the DPRK Government was not willing to comply with these practices. In January 2007 the Executive Board imposed a number of conditionalities on the DPRK Programme which were not accepted by the Government of DPRK resulting in the suspension of the Programme on 1 March 2007.

UNDP has taken full note of the Report of the Board of Auditors on the Special Audit of DPRK and its findings. UNDP will continue to improve and strengthen its controls and management practices and hence will undertake the following management actions:

- As part of the ongoing harmonization of the Financial Regulations and Rules of the UN Secretariat and the Ex-Com Agencies, UNDP will propose strengthening the Financial Regulations and Rules regarding the utilization of currencies.
- In respect of the services arrangement with the Government for provision of personnel, UNDP has stopped this practice globally.
- In late 2006 the current management changed the practice of making local payments in hard currency.

General Context:

Whilst we address each audit comment individually, in this section of the management response we are providing the general context regarding UNDP's operations in DPRK relating to personnel, UNDP's financial framework and project site visits.

The status of the **local personnel** in DPRK has always been of an exceptional nature. The Country Office (CO) has been functioning under the same basic rules in DPRK

since the establishment of the office in 1980. In 1980/81 there was an attempt to reach agreement on a service contract. The service arrangement was never formally concluded because DPRK authorities sought to introduce additional terms which were not acceptable to the Organization, thus on the advice of the United Nations Office of Legal Affairs (OLA), the Country Office continued to use the ad hoc practice already in place. UNDP did not employ local staff. On the basis of the services arrangement with the Government, the Government provided services to the office through the provision of personnel.

The Executive Board at its Second Regular Session in 2001 formally took note of the findings of the Country Review Report in document DP/CRR/DRK/1, which referred to the particular arrangements used to undertake operations in DPRK and highlighted the fact that "staff" do not have contracts and that UNDP has few options in its "staff" selection.

The regulatory framework of UNDP (that governs utilization of currencies) is embedded in the Financial Regulations, Rules, procedures and practice and not the Agreement between the Democratic People's Republic of Korea and UNDP related to UNDP's assistance to the country (SBAA), concluded on 8th November 1979. The SBAA is the overall treaty based on a global model text that provides the basic conditions under which UNDP and its executing agencies assist the Government in carrying out its development projects. The authority to approve Financial Regulations is vested solely in the Executive Board of UNDP. The UNDP Financial Regulations and Rules do not contain a stipulation on the utilization of currencies. Indeed, this is consistent with the United Nations Financial Regulations and Rules which also do not contain any such stipulation.

With respect to **project site visits**, UNDP provided detailed documentary evidence to the Board of Auditors testifying to 38 field visits to project sites that were carried out between 2002 and the present. The visits verified that project funds were being used for the purposes intended and no instance was found of shortcomings in this respect. All requests by UNDP to visit project sites were agreed to by the Government. Visits were carried out by international staff, headquarters staff and project review teams. Based on the UNBOA initial review, there is no evidence that funds have been misused; the monitoring reports confirm that funds were used for the purposes intended and results achieved.

In the context of UNDP activities in DPRK, it is also important to note that implementation of internal audit recommendations between 1999 and 2004 noticeably improved, with a substantial decrease in the recommendations in 2004 as opposed to 1999 and 2001. This underscores the serious effort made to improve oversight despite a less than conducive environment. Indeed, the overall OAPR audit rating improved.

Specific Comments:

Comment #13:

UNDP did not in any way limit the scope of work of the current phase of the UNBOA audit. All documentation requested by the audit team was provided to them on a timely basis. Furthermore, the audit team had access to all UNDP staff members, including staff members located in the DPRK office.

With reference to #13 (b), UNDP does not prepare country by country financial statements but rather prepares financial statements at the corporate (global) level. However, we have provided a complete set of records, requested by UNBOA, from our accounting systems for the period under review.

UNDP will welcome and fully cooperate if a decision is taken to proceed with the second phase of the audit in DPRK Pyongyang, where supporting documentation required for the UNBOA to complete their work is available.

Comment #17:

Concerning local personnel, the provisions mentioned in the UNBOA report under comment 17 are not applicable. These individuals were provided under the service arrangement with the Government. Although efforts were made to harmonize the arrangements with UNDP local staff practices in other countries, this was not possible because the Government did not agree. The Executive Board at its Second Regular Session in 2001 formally took note of the findings of the Country Review Report in document DP/CRR/DRK/1, which referred to the particular arrangements used to undertake operations in DPRK and highlighted the fact that "staff" do not have contracts and that UNDP has few options in its "staff" selection. The Executive Board requested UNDP to discontinue this practice on 1st March 2007 but the Government of DPRK disagreed. This and other factors resulted in the suspension of the Programme.

Article 6 of the SBAA does not govern local or foreign currency payments made by UNDP. Furthermore, UNDP's Financial Regulations and Rules do not contain a stipulation on the utilization of currencies. Indeed, this is consistent with the United Nations Financial Regulations and Rules which also do not contain any such stipulation.

In the 1992 UNDP Finance Manual, Country Offices were encouraged to utilize local currencies to the extent possible, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. In the same Manual the decision regarding the choice of currencies utilized was delegated to all UNDP Resident Representatives. **The scope of this audit is the period 2002-2006. During this period, the 1992 UNDP Finance Manual was not applicable.** The Manual revised in 2000 does not contain any guidance on the utilization of currencies.

Given that the 2000 UNDP Finance Manual did not contain any guidance on this issue, and given the restricted commercial environment in DPRK, in order to sustain the UNDP programme and ensure that local suppliers provided services and goods, the DPRK Country Office had to make certain payments in foreign currency. This practice was also followed by other UN Agencies and Foreign Missions present in DPRK.

Concerning project visits, UNDP was able to monitor all field projects. Evidence of this was presented to the UNBOA. These visits were in the presence of DPRK Government counterparts, as would be the practice elsewhere, and hence the term "supervision" is not appropriate. There is no evidence that any attempt was made by the Government to influence the conclusions reached by those international staff monitoring projects.

It should be noted that UNDP is the only UN Agency that, to date, has suspended its operations in DPRK.

Comment #22:

No DPRK local personnel were ever employed by UNDP or the UN system in DPRK. On the basis of the service arrangement imposed by the Government, the Government provided services to the office through the provision of personnel as is the case for all Foreign Missions and International Organizations and therefore all UN Agencies follow the same practice.

As noted in paragraph 24, the Executive Board at its Second Regular Session in 2001 formally took note of the findings of the Country Review Report in document DP/CRR/DRK/1, which referred to the particular arrangements used to undertake operations in DPRK and highlighted the fact that "staff" do not have contracts and that UNDP has few options in its "staff" selection.

In January 2007 the Executive Board asked UNDP to follow normal competitive recruitment practices to hire personnel from 1 March 2007. This was not accepted by the DPRK Government.

Comments #25 to #28 and #32 to #35:

The SBAA is the overall treaty that governs UNDP's assistance to the Government and is based on a global model text.

No DPRK local personnel were ever employed by UNDP or the UN System. Moreover local personnel were not seconded (because the Government would not allow its staff to sign contracts). As the Board has noted in paragraphs 25 through 28 on the basis of the service arrangement imposed by the Government, the Government provided services to the office through the provision of personnel as is the case for all Foreign Missions and International Organizations. Therefore all references to the UNDP Personnel Manual as referred to in paragraphs 32 through 35 are not valid.

The UNBOA report states in paragraph 28 that no signed copy of the agreement was provided to the Board. The draft agreement was not signed by either party in 1981 because the Government of DPRK sought to introduce additional terms which were not acceptable to the organization, thus on the advice of the OLA the Country Office continued to use the ad hoc practice already in place.

Comments #36 to #40:

Pursuant to the services arrangement between UNDP and the Government payments were made directly to the Government. Supporting documentation relating to these payments is available in Pyongyang.

As reflected in the UNBOA report, the payment in EUROS was a standard practice among UN Agencies operating in DPRK.

The request for advice mentioned in paragraph 40 referred to monthly payments for local personnel. All of the local personnel providing services to the Country Office were provided by the Government and hence were not local staff. Therefore, the UN Staff Rules on currency of payment only apply to UN staff members. In 2004, guidance was

provided by an Expert Adviser on Compensation to BOM/OHR that "...payments by 'private' employers or other embassies would in all likelihood be hard currency denominated...", and hence on the basis of this, Treasury/OFA had no objection on the usage of Euro.

Comments #41 to #43:

On the basis of the services arrangement with the Government, the Government provided personnel to the office, and thus they were not local staff. Hence the UN Salary Survey methodology does not apply.

These increments were determined by the Ministry of Foreign Affairs and communicated by the attached Note Verbale and implemented by all International Organizations and Foreign Missions.

Increments with respect to payments for services were insignificant considering that such increments were only $13 over a twelve-month period.

Comments #45:

The individuals were not staff. Meal allowances have been paid to personnel for many years, and the practice is common to Foreign Missions and International Organizations including UN Agencies in DPRK. The internal audit report of 2004 found no objection to this arrangement.

Comment #46:

No personnel were seconded from the Government, and thus the reference to the UNDP Personnel Manual made in the UNBOA report is not valid.

Comment #50:

No personnel were seconded from the Government. An understanding was reached with the Government on the provision of services for the office, which was the basis for operations for the last 27 years. The SBAA is the overall treaty that governs UNDP's assistance to the Government and is based on a global model text. In 1980/81 there was an attempt to reach agreement on a service contract. The service arrangement was never formally concluded because DPRK authorities sought to impose additional terms which were not acceptable to the Organization, thus on the advice of the OLA, the Country Office continued to use the ad hoc practice already in place. Very modest increases were levied by the Government for these services. These charges were paid in response to periodic formal Notes Verbales issued by the Ministry of Foreign Affairs to all Foreign Missions and International Organizations.

Comment #52:

In the 1992 UNDP Finance Manual, Country Offices were encouraged to utilize local currencies to the extent possible, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. In the same Manual the decision regarding the choice of currencies utilized was delegated to all UNDP Resident Representatives. The scope of this audit is the period 2002-2006. During this period, the

1992 UNDP Finance Manual was not applicable. The Manual revised in 2000 does not contain any guidance on the utilization of currencies.

Given that the 2000 UNDP Finance Manual did not contain any guidance on this issue, and given the restricted commercial environment in DPRK, in order to sustain the UNDP programme and ensure that local suppliers provided services and goods, the DPRK Country Office had to make payments in foreign currency. This practice was also followed by other UN Agencies and Foreign Missions present in DPRK.

Comment #55:

All the local personnel providing services to the Country Office were provided by the Government and hence were not local staff. The UN Staff Rules on currency of payment only apply to staff. In 2004, guidance was provided by an Expert Adviser on Compensation to BOM/OHR that "...payments by 'private' employers or other embassies would in all likelihood be hard currency denominated...", and hence on the basis of this, Treasury/OFA had no objection on the usage of Euro.

In order to sustain the UNDP programme and ensure that local suppliers provided services and goods, the DPRK Country Office had to make payments in foreign currency. This practice was also followed by other UN Agencies and Foreign Missions present in DPRK.

Comments #58 to #59:

References to the UNDP Manual on locally recruited staff are not relevant since they were not UN staff but personnel provided by the Government under the services arrangement.

The provision referred to in the audit findings is in the UNDP Finance Manual issued by the Assistant Administrator, Bureau of Management. There is no special treasury instruction on currency exchange rates. In the 1992 UNDP Finance Manual, Country Offices were encouraged to utilize local currencies to the extent possible, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. In the same Manual the decision regarding the choice of currencies utilized was delegated to all UNDP Resident Representatives. The scope of this audit is the period 2002-2006. During this period, the 1992 UNDP Finance Manual was not applicable. The Manual revised in 2000 does not contain any guidance on the utilization of currencies.

The UNDP Headquarters Local Salary Steering Committee in the period under review only dealt with local salary payments but not any other form of local payments. As the local personnel were not staff the reference to the Local Salary Steering Committee is not relevant. The function of managing the National Salary Surveys for non-HQs Duty Stations has been transferred, effective 1 July 2006, from UNDP Headquarters to the UN Secretariat.

Comment #60:

The regulatory framework of UNDP (that governs utilization of currencies) is embedded in the Financial Regulations and Rules and not the SBAA. The SBAA is the overall treaty

that provides the basic conditions under which UNDP and its executing agencies assist the Government in carrying out its development projects and under which any UNDP assisted projects may be executed.

With respect to the Board's conclusion relating to Article 6 of the SBAA, UNDP wishes to clarify that Article 6 relates to assessed programme costs and other items payable in local currency by the Government of DPRK to UNDP. This Article does not govern local or foreign currency payments made by UNDP.

Comment #61:

All of the local personnel providing services to the Country Office were provided by the Government and hence were not local staff. Therefore, the UN Staff Rules on currency of payment do not apply to local personnel provided by the Government under the services arrangement, as they are not UN staff members. In 2004, guidance was provided by an Expert Adviser on Compensation to BOM/OHR that "...payments by 'private' employers or other embassies would in all likelihood be hard currency denominated...", and hence on the basis of this, Treasury/OFA had no objection on the usage of Euro.

In order to sustain the UNDP programme and ensure that local suppliers provided services and goods, the DPRK Country Office had to make payments in foreign currency. This practice was also followed by other UN Agencies and Foreign Missions present in DPRK.

Comments #65 to #67:

With respect to overtime and meal allowances paid to local personnel, the office's procedure was to issue a cheque in the name of the Administrative Officer, a payee entered as "Staff" in the Accounts Payable Voucher in Atlas, who had been authorized by all local personnel to receive the amounts on their behalf. The Administrative Officer would cash the cheque and then distribute the cash to the local personnel. This practice was to avoid preparing several vouchers of small amounts.

Supporting documentation, for additional controls, available at the office, includes:

- A breakdown of the amount by local personnel
- Formal acknowledgement of receipt of the cheque by the Administrative Officer
- Signed authorization by all local personnel for the Administrative Officer to receive the payment on their behalf.

There is no mandatory requirement to record, in Atlas, the payment description. The purpose and nature of the payment can be determined from the Chart of Accounts – most importantly the project, activity, and the account code. The account code describes the nature of the payment (i.e. travel, overtime, etc.). The supporting documentation attached to the vouchers provides additional information about the payment. The supporting documentation is available in Pyongyang.

Comment #68:

The office's procedure was to issue bank transfers or cheques. The office required vendors to formally acknowledge receipt of cheques.

Supporting documentation is retained by the DPRK Country Office and is available in Pyongyang. This includes a record of the payee and amount for all cheques issued by the office, formal acknowledgement of receipt of the cheque by the vendor and cheque stubs stamped by the bank as "paid".

Comment #69:

In the 1992 UNDP Finance Manual, Country Offices were encouraged to utilize local currencies to the extent possible, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. In the same Manual the decision regarding the choice of currencies utilized was delegated to all UNDP Resident Representatives. The scope of this audit is the period 2002-2006. During this period, the 1992 UNDP Finance Manual was not applicable. The Manual revised in 2000 does not contain any guidance on the utilization of currencies.

Given that the 2000 UNDP Finance Manual did not contain any guidance on this issue, and given the restricted commercial environment in DPRK, in order to sustain the UNDP programme and ensure that local suppliers provided services and goods, the DPRK Country Office had to make payments in foreign currency. This practice was also followed by other UN Agencies and Foreign Missions present in DPRK.

Comments #70 to #71:

The balance for the non-convertible WON bank account as of the 31st of March is equivalent to $69,000. This balance includes non-convertible WON received from the Government on behalf of other UN Agencies which are funds received infrequently. Government Local Office Cost (GLOC) is paid periodically, but not on a fixed schedule, and hence the non-convertible WON bank balance fluctuates. This did not allow the Country Office to consistently make local rental payments out of the non-Convertible WON account. The balance of non-convertible bank account balance should be evaluated within the context of the average Imprest level authorized for the office which was $200,000 per month.

Comments #72:

The following explains the history of the cancelled counterfeit money. This money did not below to UNDP. On 9 December 1995, an Egyptian consultant, Mr. Hazen El-Tanbouli, was paid by the UNDP Country Office in DPRK via bank voucher, for the consultancy services he provided. Three weeks later, on 10 February 1995, Mr. El-Tanbouli sent a fax to the Resident Coordinator/Resident Representative (RC/RR) in DPRK, stating that to his surprise and sorrow, his bank (the National Bank of Egypt-Agouza branch) rejected the (35X100 US$) notes he received from the Foreign Trade Bank of the DPRK when he cashed his bank voucher received from UNDP. Mr. El-Tanbouli also stated in his fax that the Egyptian Bank returned the bills to him after marking them to ensure that the bills could not be re-used again. He concluded his fax message by asking the RC/RR to find a way to put this matter in order.

In early 1996, Dr. Yehia Abu Alam, at Mr. El- Tanbouli's request, delivered the counterfeit currency to the RC/RR in DPRK with a note from Mr. El-Tanbouli explaining the circumstances as described in his fax.

The RC/RR, other UNDP officials, as well as subsequent RCs/ RRs who were assigned to DPRK, attempted to address the issue for many years without success. On 29 May 1996, the RC/RR wrote a letter to the General Manager of the Foreign Trade Bank asking that the notes be replaced by genuine notes explaining that this had happened to staff members of Embassies such as Nigeria and Indonesia and asserting that the notes were replaced. The Bank refused to replace the notes. In June 1996, the RC/RR sent letters to the Ministry of Foreign Affairs and the Secretary-General NCC for UNDP. UNDP staff met with the Section Chief of the Bank's Foreign Exchange Department. The Foreign Minister was asked for his personal intervention and in August 1996, the RC/RR met the Foreign Minister on the issue. A number of formal and informal communications were conducted by UNDP office. Notwithstanding these efforts, the DPRK Bank rejected UNDP's request.

After the enormous effort made by the UNDP office in DPRK to have the false notes replaced, Mr. El-Tanbouli was informed of the outcome. The counterfeit notes -- marked by the Egyptian Bank so that they could not be used again -- remained in the UNDP safe.

Different individuals over the years within the UNDP Country Office sought guidance from Headquarters on what to do with the counterfeit notes and did not receive any direction. Several leadership changes took place in the Country Office and Headquarters without resolving the matter. As a result, the counterfeit bills stayed in the UNDP Country Office safe in Pyongyang for many years.

The matter was brought to the attention of the current senior management in New York in February 2007. In agreement with the US authorities, the suspected counterfeit dollars were handed over to the US authorities on 20 March 2007 in New York. Following the preliminary audit findings of the UNBOA and investigation by US authorities, UNDP is undertaking an internal review of the situation pertaining to the $3500 suspect currency.

Comment #73:

With respect to the Board's conclusion relating to Article 6 of the SBAA, UNDP wishes to clarify that Article 6 relates to assessed programme costs and other items payable in local currency by the Government of DPRK to UNDP. This Article does not govern local or foreign currency payments made by UNDP.

The provision referred to in the audit findings is in the UNDP Finance Manual issued by the Assistant Administrator, Bureau of Management. There is no special treasury instruction on currency exchange rates. In the 1992 UNDP Finance Manual, Country Offices were encouraged to utilize local currencies to the extent possible, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. In the same Manual the decision regarding the choice of currencies utilized was delegated to all the Resident Representatives of each Country Office. The scope of this audit is the period 2002-2006. During this period, the 1992 UNDP Finance Manual was not applicable. The Manual revised in 2000 does not contain any guidance on the utilization of currencies.

References to the UNDP Manual on locally recruited staff are not relevant since they were not UN staff but personnel provided by the Government under the services arrangement. Hence no formal authorization was required.

Given that the 2000 UNDP Finance Manual did not contain any guidance on this issue, and given the restricted commercial environment in DPRK, in order to sustain the UNDP programme and ensure that local suppliers provided services and goods, the DPRK Country Office had to make payments in foreign currency. This practice was also followed by other UN Agencies and Foreign Missions present in DPRK.

As part of the ongoing harmonization of the Financial Regulations and Rules of the UN Secretariat and Ex-Com Agencies, UNDP will propose strengthening of the Financial Regulations and Rules on utilization of currencies.

Comments #74, #76, #79, #86, #87, #88 and #97:

With respect to project site visits, UNDP provided detailed documentary evidence to the Board of Auditors testifying to 38 field visits to project sites that were carried out between 2002 and the present. The visits verified that project funds were being used for the purposes intended and no instance was found of shortcomings in this respect. All requests by UNDP to visit project sites were agreed to by the Government. Visits were carried out by international staff, headquarters staff and project review teams. Based on the UNBOA initial review, there is no evidence that funds have been misused; the monitoring reports confirm that funds were used for the purposes intended and results achieved.

Comment #90:

The 1999 audit is outside the scope of the review. UNDP provided the UNBOA with subsequent audit reports and status of implementation. The subsequent audit reports indicated that audit recommendations relating to project site visits have been completely implemented.

Date: 28-set-2005 16.37
Subject: RE: VERY CONFIDENTIAL: - Utilization of MOSS/TAR - VERY CONFIDENTIAL
To: TS <tonys81@gmail.com>, Napoleon Navarro < napoleon.navarro@undp.org>
Cc: jab.swart@undp.org

Nap,

Can we discuss this. It is important to follow up on these points that tony has raised. Perhaps in the context of the overall internal control framework these issues can be objectively examined. Jab may have some suggestions. We may also need the help of OAPR on this – also seek the advice of the MCT for any ideas.

Best,

romy

-----Original Message-----
From: TS [mailto: tonys81@gmail.com]
Sent: Tuesday, September 27, 2005 9:35 PM
To: Napoleon Navarro
Cc: jab.swart@undp.org; Romulo. V. Garcia; tonys81@gmail.com
Subject: Re: VERY CONFIDENTIAL: - Utilization of MOSS/TAR - VERY CONFIDENTIAL

Dear all,

I am using the email of the hotel. I am very disturbed lately with the situation in the office. We are having less and less control of the staff. The outgoing fax-es only in the months of June - August have increased of up to 300%, while none of those numbers correspond to any real official relations with the office.

Problem is that nor I or Timo/DU - even dare to raise this issue in the office, otherwise with the reduction of international staff, we will end up PNG. But by introducing the proposed equipment at least I will monitor and review all calls and incomming and outgoing mail/fax-es.

Another big issue, which I am pushing from more than a year now, is the use of hard

Permanent Subcommittee on Investigations
UNDP Report - FN 46

currency and un-reconcilable expenses in this regard. I want immediately a technological solution which at least will be able that we (UNDP) to be able to scan the checks we issue everyday. This because the bank do not provide copy or proof of checks. There is a big scheeme going on, which I have denounced in NY since March. At least with this kind of IT/Equipment we will protect ourselves and create a full backup.

UNDP shonld protect its reputation and integrity, otherwise we might end up in big problems.

All this should be handled directly form Nap in NY in a very confidential way. Once I am in, I really doubt that I can use this webmail again.

Thanks for your understanding and support,

Tony

2005/9/27, Napoleon Navarro < napoleon.navarro@undp.org>:

Dear Jab,

I wonder if this issue has been included in the Security and Risk Assessment done by WFP? I would just want to confirm the point raised by Tony that the Country Office does not have secure communication channels. We have in fact given up hope of ever getting secure communications and assume that whatever we send is and can be seen -- even webmail can easily be called out using a simple software like google desktop -- . If this proposal passes the requirements of the UNDP Security Unit, I would recommend that all the administrative/procurement support be done out of reach of the CO -- otherwise we run the risk of compromising the security of the system from day 1.

cheers,
Nap

TS wrote:

> Dear Jab,
>
> first of all I would like to appologize for the delay, which is caused
> because of the lack of access to "secure communication channels" from

> DPRK.
>
> I am currently in China, and finally I am sending to you full version
> of the project and justification for additional funding.
>
> I am copying this email to Romy and Nap in HQs, but as you will
> understand from the justification itself, I cannot copy to myself nor
> Timo or Du in our office.
>
> Basically the access to safe and reliable communication is not only
> becaming a safety issue for UNDP DPR Korea, but also a major stress
> related component.
>
> We cannot communicate in a transparent way what we think, as well as
> cannot neither dare to write a reasonable email, since our internal
> network is managed from a "national staf".
>
> Therefore the attached justification for additional funding of
> US$35,000, tries to address some of the most important issues, such are:
>
> 1. Safe and incripted IP/VOICE phone communication: - which basically
> will completely put out of space the "locals" and their tentative to
> controll even when we speak to our families;
>
> 2. Safe and incripted email server;
>
> 3. Safe access to all fax and other outgoing and incomming
> communications from the office. This because the UNDP in the last
> three years is paying thousdand of dollars for un-identified calls
> (international) which we are now doubtfull of their origin and their
> "address". Also there is an increasing suspiscious that our fax and
> outgoing server is being used for other
>
> Therefore I would highly appreciate that you consider this email as a
> very sensitive matter, that you at no time will share with us thru
> direct undp.org <http://undp.org> email. Security of staff in DPRK
> might look safe and cool from outside, operationally speaking is a
> major issue which is not allowing none of us to perform our duties as
> asked.
>
> Please find attached for your consideration the project idea, and let
> me know if you can support it.
>
> Best Regards
>
> Tony Shkurtaj
> UNDP Operations Manager
> UN Country Security Officer
> DPR Korea
>

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 9th SEP 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	SINDOK TRADING PTE LTD.
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	UNITED OVERSEAS BANK LTD., SINGAPORE
Address of Receiving Bank	
Message (if any)	B/O UNDP PYONGYANG MSG: SUB-CONT. NO.563/2002/TSC REF.602 EMG 069
Amount in words & figures (USD.229,997.00)	U.S. DOLLARS TWO HUNDRED TWENTY NINE THOUSAND NINE HUNDRED NINETY SEVEN ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RE/OTT/5513/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD100
[redacted]	
Total*	

09:46:06 2002/09/09 T/C: 013A d.F.T.C.
[redacted] TRD 929 TREDEP $229,997.00 USD
TRN [redacted] TRFWDW $229,997.00 USD

BDA/RE/OTT/5513/02

Payment of the above remittance XXXXXXX:
☐ By cash
☐ By cheque
(subject to final clearance)
X ☐ Please debit my / our account no. [redacted]
☐ _____

I/We [redacted] this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant: [redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94)

BRANCH COPY

Permanent Subcommittee on Investigations
UNDP Report - FN 55

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 10th APR 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	DELEGATION GENERALE DE LA R.P.D. DE COREE DE PARIS
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANQUE COMMERCIALE POUR L'EUROPE DU NORD-EUROBANK, PARIS
Address of Receiving Bank	
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE OF THE DPRK FOR UNDP COVER BUILDING N HOUSES, REF.TTB62-077
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	
Paying Agent:	BDA/RE/OTT/2227/02
Rate	HK Equivalent
Cable / Postage	
Commission	HK$60
Total*	

10:13:35 2002/04/10 T/C: 013A INT'L F. & T. J. CO. [redacted]
[redacted] TRD 929 TRFDEP $300,000.00 USD
[redacted] TRN [redacted] TRFWDN $300,000.00 USD

BDA/RE/OTT/2227/02

*Payment of the above remittance XXXXXX
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account
no. [redacted]
☐ _____

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合資公司 MACAU

Signature of Applicant

[redacted]

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

Permanent Subcommittee on Investigations
UNDP Report - FN 56

WSJ.com OpinionJournal
from THE WALL STREET JOURNAL Editorial Page

PRINT WINDOW CLOSE WINDOW

THE INTERNATIONAL COMMUNITY

A Whistleblower's Tale

Remember Oil for Food? Here's the story of how the U.N. propped up Pyongyang.

BY MELANIE KIRKPATRICK
Sunday, July 8, 2007 12:01 a.m.

It's been more than six months since the U.S. first shone a light on the corruption in the United Nations Development Program in North Korea--a scandal potentially involving tens of millions of dollars used to help prop up the nuclear-armed regime of one of the world's most dangerous dictators. But never mind. It's all a Bush administration plot.

Such, apparently, is the considered view of the UNDP, which has spent the past half-year variously disputing the U.S. disclosures, justifying UNDP actions on "humanitarian" grounds, or offering an everyone-does-it defense. Ad Melkert, the former Dutch politician who is the No. 2 official at the UNDP and the point person for oversight of the program, even threatened to "retaliate" against the U.S., according to Zalmay Khalilzad, U.S. ambassador to the U.N.

In any case, Mr. Melkert seems to be more worried about his own job than the integrity of the organization he leads. In a June 23 article titled, "Smear Campaign, U.S. Against Melkert," the Dutch daily De Telegraaf, citing "insiders at the UNDP," reported that "conservative forces in the American government want the scalp of Ad Melkert."

So it's perhaps the right moment for a reality check courtesy of the man who blew the whistle on it all--Artjon Shkurtaj, an Albanian-born accountant who served as chief of operations for all U.N. operations in North Korea from November 2004 to September 2006. Mr. Shkurtaj--a veteran of UNDP programs in Bangladesh, East Timor, Kosovo, Mexico, India and elsewhere--was outraged at the violations he encountered in North Korea. After two years of trying to persuade his superiors at UNDP headquarters in New York to take corrective action, he took his information to the U.S. mission to the U.N. in May 2006. The UNDP responded by firing him this March.

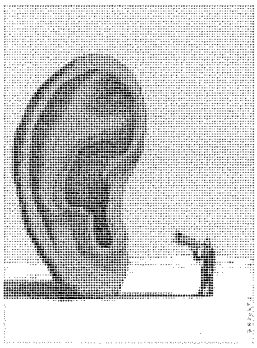
A preliminary report by U.N. auditors, issued last month, confirms massive violations of U.N. rules regarding hiring practices, the use of foreign currency, and inspections of U.N.-funded projects. In a series of interviews in New York, Mr. Shkurtaj says the auditors (who were barred by North Korea from going there) barely scratched the surface of the misconduct.

We get quickly to the bottom line: Did the U.N. money go to the humanitarian projects it was supposed to fund? "How the hell do I know?" responds Mr. Shkurtaj--oversight was so poor, the involvement of North Korean workers assigned by the government so extensive and the use of cash so prevalent, that it was impossible to follow the money trail.

Permanent Subcommittee on Investigations
UNDP Report - FN 58

Mr. Shkurtaj arrived in North Korea on Nov. 4, 2004. He says one of his first indications that something was amiss was when checks denominated in euros and made out to "cash" arrived on his desk for signature. "Rule No. 1 in every UNDP country in the world is that you have to operate in local currency," he says, "not in hard currency. It's the rule No. 1 of development . . . in order to support the local economy and not devalue or destroy the local currency."

"I didn't sign the checks for about a week," he says, and then "it became a real mess. Headquarters contacted me, and said, 'Don't become a problem. You're going to wind up a PNG, a persona non grata, and ending up a PNG means the end of your career with the U.N. . . . We are authorizing you to go ahead and sign the checks. . . . So I started signing."



"Every morning from 8 to 10, we would issue checks" in euros for staff and projects, Mr. Shkurtaj says. "Then the checks, instead of going directly to the people or institutions by mail, as they should go [as specified by U.N. rules], the checks were given to the driver of our office." The driver would take them to the Foreign Trade Bank, where he would "exchange them into cash and come back to the office." North Korea did not permit Mr. Shkurtaj to have access to the UNDP's accounts at the Foreign Trade Bank, which refused even to keep his signature on file.

Then, every day at noontime, "North Koreans saying they represented U.N.-funded projects would come to receive cash at the UNDP offices." Mr. Shkurtaj says he was not allowed to require the North Koreans to sign receipts for the money or even to present IDs. "I had to trust them," he says. "But, hey, if headquarters tells me to give the money away, I'll give the money away."

On Aug. 16, 2006, a few weeks before Mr. Shkurtaj left North Korea, the UNDP resident representative, Timo Pakkala, issued a memo to the staff noting "an increased use of cash payments, in some cases to payees that are not authorized to receive payments." Citing "UNDP policy," Mr. Pakkala ordered future payments be made by bank transfer or "non-cash cheque." He also ordered staff to obtain receipts and not give money to unidentified people.

Mr. Shkurtaj says nothing happened. "The same routine continued." On Jan. 31, in a memo to Kemal Dervis, head of the UNDP, he urged that "the cashing of checks from the UNDP driver must be stopped and UNDP must demand access to the Foreign Trade Bank in all transactions with our accounts."

As the recent U.N. audit confirmed, the North Koreans who worked at UNDP were selected by the Ministry of Foreign Affairs, which also collected their salaries; both practices were violations of U.N. rules. Mr. Shkurtaj notes, too, that North Koreans selected by the government performed "core" functions such as dispensing cash--another violation of the rules. All communications tools--fax and telex equipment, computer servers, the local area network--"were in the hands of the North Koreans." "All the backup data [for the office's computers] were in a storage place completely isolated with a North Korean the chief of it." When Mr. Shkurtaj wanted to file a secure report, "I would go use the telex and communications satellite at the German Embassy or other embassies in the compound."

A North Korean--Li Kum Sun--controlled the office safe in her job as "finance officer." "Damn it," says Mr. Shkurtaj, "you had security-evacuation plans in the hands of a North Korean. It's unbelievable." One of his few on-the-job successes was to get control of the safe and petty cash

taken away from Ms. Li and handed over to him in March 2006.

The U.N. audit also found numerous irregularities regarding on-site inspections of UNDP projects. Most projects are located outside Pyongyang, and Mr. Shkurtaj says one way to determine whether the required annual field visits actually took place is whether the inspectors filed expense accounts. "Everybody--meaning one driver, one translator . . . and one or two international staff would have received per diems," he says, or submitted vouchers for gas or overtime. "That is the proof that people checked the project." Yet, "in nearly two years in North Korea. . . . I signed for a maximum of two or three" such trips.

Mr. Shkurtaj recounts two inspections he attempted to carry out himself. In one case, UNDP paid for 300 computers intended for Kim Il Sung University. "Instead of the computers coming to UNDP, they went to a warehouse outside town, and we were allowed to inspect them only after a month and a half of fighting [with the government]. Then we were allowed to inspect only one computer in one box. The other boxes were not allowed to be opened."

Another inspection charade involved GPS equipment supposedly going to an agricultural project on flood control. "They didn't allow us for 3 1/2 months to see the GPSs that we gave them," Mr. Shkurtaj says.

Finally, he says, "they took us to the outskirts of Pyongyang, to an empty building, completely empty--no desk, no chairs, no nothing. We come in and go to the first floor. Empty. We go to the second floor. Empty. On the last door of the second floor, we enter. There is only one desk in the middle of the room, and on the desk are the GPS devices that we provided. Now, you're telling me we are providing GPS devices for an empty building, without people working inside?"

During the years he worked for UNDP in Pyongyang, Mr. Shkurtaj says he filed numerous reports to his superiors but got nowhere. Finally, with several months to go in his tour of duty in North Korea, he was recalled to New York.

He says that David Lockwood, deputy assistant administrator of the UNDP, told him, "Look, it would be good for your future if you come to New York and from here we'll send you somewhere else in the world. But you have rocked the boat too much right now and you should leave for your own good."

Mr. Shkurtaj's last day in North Korea was Sept. 26, 2006. When his contract came up for renewal in March--the vast majority of U.N. employees operate under work contracts--he was told that after 13 years of employment at UNDP his services would no longer be needed.

A few months before his dismissal, he received an "outstanding" rating in his annual review, dated Dec. 14, 2006, and signed by Romulo Garcia, chief of the Northeast Asia and Mekong Division. Mr. Garcia described Mr. Shkurtaj as "quick, professional, highly competent, creative, hard working and dedicated."

Mr. Shkurtaj has filed a complaint with the U.N. Ethics Office, asking for reinstatement under the U.N. whistleblower protection policy. Yesterday Rep. Ilena Ros-Lehtinen, ranking Republican on the House Foreign Affairs Committee, wrote U.N. Secretary-General Ban Ki Moon asking him to look into Mr. Shkurtaj's dismissal. His case "appears to be a fundamental test of the UN's whistleblower protection policy, one of the touted hallmarks of internal U.N. reform in recent years," she writes. "It is also highly relevant to whether UNDP has adequately internalized the need for increased transparency and accountability." Her request followed a similar letter to Mr. Ban last week from Sen. Norman Coleman, asking that Mr. Shkurtaj be accorded whistleblower protection.

Meanwhile, Mr. Shkurtaj has sent his wife and two children home to Italy--he is an Italian citizen--and is fast depleting his savings. He says he is "living like a bum" in New York.

Ms. Kirkpatrick is a deputy editor of The Wall Street Journal's editorial page.

Copyright © 2007 Dow Jones & Company, Inc. All Rights Reserved.

PRINT WINDOW CLOSE WINDOW

United Nations Development Programme

조선민주주의인민공화국주재
유엔개발계획대표부

Interoffice
Memorandum

To: All UN Staff in DPR Korea
Act. UNDP Resident in DPR Korea

Date: August 15, 2004

From: Timo Pakkala
Resident Representative

Extension:

Subject: Payment Modalities

File:

I have been noticing in recent months an increased use of cash payments, in some cases to payees that are not authorized to receive the payments. This is contrary to UNDP Finance Guidelines and Regulations.

I wish to reiterate that it is UNDP policy that payments will normally be made by Bank Transfer (EFT) or by non-cash cheque. This should be the default mode of payment for all transactions.

In exceptional cases, where EFT or use of non-cash cheques is not possible or feasible (due to the absence of a bank account or banking facilities), the payee (and no one else, with identification document) must acknowledge receipt on a standard receipt form to be prepared by UNDP. For UNDP funded projects, the only person authorized to accept payments on its behalf is the National Project Director (NPD). Finance Section must keep dated specimen signatures of all NPDs for this purpose.

Programme Officers are requested to ensure that all NPD's are made aware of these procedures.

This also applies for payments we make on behalf of other UN agencies.

Thank you all for adhering to the above.

P.O. Box 27, Pyongyang, DPR Korea, Telephone: (8502) 3817566, Fax: (8502) 3817603, E-mail: registry.kp@undp.org

Permanent Subcommittee on Investigations
UNDP Report - FN 60

United Nations Development Programme (UNDP)

Responses to Recent Allegations about UNDP Programs in North Korea (DPRK) *

Allegations	UNDP Responses
1. UNDP has transferred tens of millions of dollars to the North Korean government which has been used to purchase nuclear technology, weapons, real estate and/or luxury items for the leadership.	False. From 1999 until the suspension of its programs in North Korea earlier this year, UNDP made direct transfers to the designated North Korean government agency (National Coordinating Committee for UNDP, or NCC/UNDP) totaling just $379,476. Furthermore, over the same eight-year period, of the $18.8 million UNDP has expended on all North Korean projects (or roughly $2 1/3 million per year), less than half of that money actually entered North Korea, having been expended on staff salaries and expenses outside of the country or with vendors supplying equipment for specific projects within the country. Total funds expended on behalf of other UN agencies for projects in North Korea averaged an additional $1 million per year--but, once again, this money was not transferred directly to the North Korean government, and all expenditures are fully documented with receipts, activity reports, and written communications. UNDP has strong financial management systems in place and has undergone a further detailed review of its activities in North Korea to verify the purposes, recipients and uses of all its funds. Its programs there have been regularly approved by the UNDP Executive Board, which includes the United States.
2. UNDP used large amounts of cash for many of its transactions in North Korea.	False. UNDP conducted its business in North Korea by means of check and bank transfers rather than cash. Where vendors or employees did not have bank accounts (which are difficult to obtain in North Korea), UNDP paid with 'cash checks', i.e. endorsable checks made out to particular individuals. Use of this term may have caused confusion, but UNDP has been able to verify that it wrote checks only to individuals and not to "cash", with appropriate receipts and authorizations.
3. UNDP facilitated the use or transfer of counterfeit currency by the North Korean government.	False. The only evidence to date involving a connection between UNDP and counterfeit currency was the storage in a UNDP office safe in Pyongyang since 1995 of $3500 in counterfeit currency belonging to a former Egyptian consultant to UNDP who had been paid by the North Korean government in false U.S. currency. That money had been defaced by an Egyptian bank, according to banking rules relating to counterfeit currency, and therefore was not usable. It was stored at the request of the consultant who was seeking UNDP's assistance in obtaining restitution in valid currency from the North Korean government. UNDP's efforts were not successful and the currency remained in the office safe indefinitely. At the time, there was not a clear UN policy about the disposition of such currency; such a policy is now being finalized.

* **Prepared by the Liaison Office of UNDP in Washington, DC in response to repeated inquiries.** The above allegations have appeared in various documents and media reports. They are among the issues under investigation by an Independent Investigative Review panel commissioned by UNDP and led by former Hungarian Prime Minister Miklos Nemeth. The other panel members are Chander Mohan Vasudev, formerly Permanent Secretary of Public Expenditure in the Indian Ministry of Finance, and Mary Ann Wyrsch, former United Nations Deputy High Commissioner for Refugees and former acting commissioner of the U.S. Immigration and Naturalization Service. That investigation is expected to conclude with a final report in early 2008.

4. UNDP has supplied equipment of significant military value in defiance of national export control restrictions.	False. UNDP requires suppliers of products and equipment to obtain any necessary export licenses from the national governments where those products originate. Two examples have recently drawn particular attention. In 2000, UNDP purchased a Geographic Information System (GIS) from Australia, and, in 2006, purchased a GPS system and a high-end spectrometer from Holland. This type of equipment is increasingly common in many developing countries to assist with land use classification, crop yield estimation, and monitoring of natural disasters, and it is readily available off-the-shelf. In both cases, UNDP's suppliers were not required to obtain export licenses from their respective governments for the equipment involved.
5. UNDP has been unable to monitor its development projects in North Korea to assure that funds are properly utilized, and that it had to obtain government approvals before traveling to observe its own development projects.	False. UNDP has been able on a regular basis to visit and observe all of its projects in North Korea to confirm the use of funds, equipment and staff and to evaluate project effectiveness. Government requirements of prior notice for project visits are standard in many countries where UNDP operates, as is the protocol that Government counterparts participate in the visits. In North Korea these requirements could be burdensome, but there is no indication that they resulted in significant interference with the execution and monitoring of UNDP's projects. Many activities that UNDP supported in North Korea did not have 'sites' to visit (e.g. training and study travel abroad for officials to gain understanding of the outside world), but could be monitored effectively in other ways. Since 1979 UNDP's projects in North Korea have centered on improving the living conditions of the population: among other things UNDP's presence in North Korea allowed for a more effective international response to the horrific famines the country experienced in the 1990s, and in recent years have focused on food production, rural and environmental sector management, economic management and social sector management.
6. UNDP operated in North Korea despite government requirements that it hire only local nationals employed by the government, that it pay only in hard currency—conditions which contradict UNDP's standard policies on such matters.	True. From 1979 to early 2007, UNDP accepted the conditions imposed by the North Korean government on employing local nationals and using hard currency as the only basis for operating in the country. They are the same conditions observed by other UN agencies, international NGOs and those national diplomatic missions operating in the country (including many Member States of UNDP's Executive Board). These issues were last brought before the UNDP Executive Board in 2001. However, following concerns raised by the United States and endorsed at UNDP's January 2007 Executive Board meeting, UNDP informed the North Korean government that it was no longer willing to follow the conditions placed on local hiring and currency use. The North Korean government indicated that it was not prepared to remove these conditions, and UNDP therefore suspended its program in North Korea as of March 2007. All other UN agencies and foreign embassies in North Korea continue to operate under these same conditions.

7. UNDP retaliated against a former employee who sought to "blow the whistle" and expose serious problems in its North Korea operations.	This case is under consideration by the Independent Investigative Review referenced above. The employee in question worked for UNDP on various short-term contracts over the past 13 years for a total tenure of about 2 ½ years. His last contract was not renewed because his services were no longer required, not because he was being penalized for expressing concerns about UNDP activities or management. He did not invoke UNDP's existing protections against retaliation ("whistleblower" protections) and did not cooperate with UNDP's own investigation of the allegations. UNDP's relevant procedures have since been reviewed in consultation with the U.N. Secretariat and the other U.N. Funds and Programs, and they have been reinforced and updated in light of the concerns expressed about these issues.

8. UNDP is naïve and ineffective in dealing with authoritarian, fragile or corrupt governments.	False. UNDP has years of experience operating in the most difficult countries in the world, including those in the midst of conflict, such as Iraq, Afghanistan, Sudan and Somalia. Our headquarters and local leadership are particularly attuned to the challenges of working with governments who might seek to divert development programs for political or personal advantage. Additional financial safeguards are included in problematic circumstances, and members of UNDP's Executive Board, including the United States, exercise special scrutiny of all programs in these locations.

UNDP

UNITED NATIONS
DEVELOPMENT
PROGRAMME

UNDP/ADM/LEG/SBA/77
21 November 1979

TO: Participating and Executing Agencies of the UNDP

FROM: John A. Oliver
Assistant Administrator
Bureau for Finance and Administration

SUBJECT: [redacted]

1. This document reproduces the text of the Standard Basic Assistance Agreement between the Government of the Democratic People's Republic of Korea and the United Nations Development Programme, signed on 8 November 1979 by the Ambassador Extraordinary and Plenipotentiary, Permanent Observer of the Democratic People's Republic of Korea to the United Nations on behalf of the Government, and by the Administrator of the United Nations Development Programme on behalf of the UNDP.

2. The Agreement entered into force upon signature.

Redacted By
Permanent Subcommittee
on Investigations

Permanent Subcommittee on Investigations
UNDP Report - FN 72

UNDP/AIP/[illegible]/SBA/[illegible]
21 November 1975

AGREEMENT

between

THE GOVERNMENT OF THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

and

THE UNITED NATIONS DEVELOPMENT PROGRAMME

WHEREAS the General Assembly of the United Nations has established the United Nations Development Programme (hereinafter called the UNDP) to support and supplement the national efforts of developing countries at solving the most important problems of their economic development and to promote social progress and better standards of life; and

WHEREAS the Government of the Democratic People's Republic of Korea (hereinafter called the Government) wishes to request assistance from the UNDP for the benefit of its people;

NOW THEREFORE the Government and the UNDP (hereinafter called the Parties) have entered into this Agreement in a spirit of friendly cooperation.

Article I
Scope of This Agreement

1. This Agreement embodies the basic conditions under which the UNDP and its Executing Agencies shall assist the Government in carrying out its development projects, and under which such UNDP-assisted projects shall be executed. It shall apply to all such UNDP assistance and to such Project Documents or other instruments (hereinafter called Project Documents) as the Parties may conclude to define the particulars of such assistance and the respective responsibilities of the Parties and the Executing Agency hereunder in more detail in regard to such projects.

2. Assistance shall be provided by the UNDP under this Agreement only in response to requests submitted by the Government and approved by the UNDP. Such assistance shall be made available to the Government, or to such entity as the Government may designate, and shall be furnished and received in accordance with the relevant and applicable resolutions and decisions of the competent UNDP organs, and subject to the availability of the necessary funds to the UNDP.

Article II
Forms of Assistance

1. Assistance which may be made available by the UNDP to the Government under this Agreement may consist of:

(a) The services of advisory experts and consultants, including consultant firms or organizations, selected in consultation with the Government by and responsible to, the UNDP or the Executing Agency concerned;

(b) The services of members of the United Nations Volunteers (hereinafter called volunteers);

(c) Equipment and supplies not readily available in the Democratic People's Republic of Korea (hereinafter called the country);

(d) Seminars, training programmes, demonstration projects, expert working groups and related activities;

(e) Scholarships and fellowships, or similar arrangements under which candidates nominated by the Government and approved by the Executing Agency concerned may study or receive training; and

(f) Any other form of assistance which may be agreed upon by the Government and the UNDP.

2. Requests for assistance shall be presented by the Government to the UNDP through the UNDP mission in the country (referred to in paragraph 4(a) of this Article), and in the form and in accordance with procedures established by the UNDP for such requests. The Government shall provide the UNDP with all appropriate facilities and relevant information to appraise the request, including an expression of its intent with respect to the follow-up of investment-oriented projects.

3. Assistance may be provided by the UNDP to the Government either directly, with such external assistance as it may deem appropriate, or through an Executing Agency, which shall have primary responsibility for carrying out UNDP assistance to the project and which shall have the status of an independent contractor for this purpose. Where assistance is provided by the UNDP directly to the Government, all references in this Agreement to an Executing Agency shall be construed to refer to the UNDP, unless clearly inappropriate from the context.

4. (a) At the appropriate time and in consultation with the Government, the UNDP may maintain a permanent mission, headed by a resident representative, in the country to represent the UNDP therein and to be the principal channel of communication with the Government on all Programme matters. He shall have full responsibility and ultimate authority, on behalf of the UNDP Administrator, for the UNDP programme in all its aspects in the country, and shall be team leader in regard to such representa of other United Nations organizations as may be posted in the country, taking into account their professiona competence and their relations with appropriate organs of the Government. He shall maintain liaison on behalf of the UNDP with the appropriate organs of the Government, including the Government co-ordinating agency for external assistance, and shall inform the Government of the policies and procedures of the UNDP and other relevant programmes of the United Nations. He shall [illegible] the Government. As may be required, in the preparation of UNDP country programme and project requests as well as proposals for country programme or project changes, assure proper co-ordination of all assistance rendered by the UNDP through various Executing Agencies or its own consultants, assist the Government, as may be required, in co-ordinating UNDP activities with national, bilateral and multilateral programmes within the country, and carry out such other functions as may be entrusted to him by the Administrator or by an Executing Agency.

(b) In the meantime, a liaison office to be established in Pyongyang shall perform the functions referred to in paragraph 4(a) above and elsewhere in this Agreement.

(c) The UNDP mission in the country shall have such other staff as the UNDP may deem appropriate to its proper functioning. The UNDP shall notify the Government from time to time of the names of the members, and of the families of the members, of the mission, and of changes in the status of such persons.

Article III
Execution of projects

1. The Government shall remain responsible for its UNDP-assisted development projects and the realization of their objectives as described in the relevant Project Documents, and shall carry out such parts of such projects as may be stipulated in the provisions of this Agreement and such Project Documents. The UNDP undertakes to complement and supplement the Government's participation in such projects through assistance to the Government in pursuance of this Agreement and the work plans forming part of such Project Documents and through assistance to the Government in fulfilling its intent with respect to investment follow-up. The Government shall inform UNDP of the Government Cooperating Agency participating in each UNDP-assisted project. Both Parties may agree that an Executing Agency shall assume primary responsibility for execution of a project in consultation and agreement with the Cooperating Agency, while the Government assumes overall responsibility for its projects, and any arrangements to this effect shall be stipulated in the project Work Plan forming part of the Project Document together with arrangements, if any, for transfer of such responsibility, in the course of project execution, to the Government or to an entity designated by the Government

Compliance by the Government with any prior obligations agreed to be necessary or appropriate for UNDP assistance to a particular project shall be a condition of performance by the UNDP and the Executing Agency of their responsibilities with respect to that project. Should provision of such assistance be commenced before such prior obligations have been met, it may be terminated or suspended by the UNDP, provided that prior to such action the Government shall have been advised.

3. Any agreement between the Government and an Executing Agency concerning the execution of a UNDP-assisted project shall be subject to the provisions of this Agreement.

4. The Cooperating Agency shall as appropriate and in consultation with the Executing Agency assign a full-time director for each project who shall perform such functions as are assigned to him by the Cooperating Agency. The Executing Agency shall as appropriate and in consultation with the Government appoint a Chief Technical Advisor or Project Coordinator responsible to the Executing Agency to oversee the Executing Agency's participation in the project at the project level. He shall supervise and coordinate activities of experts and other Executing Agency personnel and be responsible for the on-the-job training of national Government counter-parts. He shall be responsible for the management and efficient utilization of all UNDP-financed inputs, including equipment provided to the project.

5. In the performance of their duties, advisory experts, consultants and volunteers shall act in close consultation with the Government and with persons or bodies designated by the Government, and shall comply with such instructions from the Government as may be appropriate to the nature of their duties and the assistance to be given.

6. Recipients of fellowships shall be nominated by the Government and be selected by the Executing Agency. Such fellowships shall be administered in accordance with the fellowship policies and practices of the Executing Agency.

7. Equipment, materials, supplies and other property financed or provided by the UNDP shall belong to the UNDP unless and until such time as ownership thereof is transferred, on terms and conditions mutually agreed upon between the Government and the UNDP to the Government or to an entity nominated by it.

8. Patent rights, copyrights, and other similar rights to any discoveries or work resulting directly from UNDP assistance under this Agreement shall belong to the UNDP. Unless otherwise agreed by the Parties in each case, however, the Government shall have the right to use any such discoveries or work within the country free of royalty or any charge of similar nature.

Article IV

Information concerning Projects

1. The Government shall, to the extent available, furnish the UNDP with such relevant reports, maps, accounts, records, statements, documents and other information as it may request concerning performance of obligations under this Agreement and Project Documents.

2. The UNDP undertakes that the Government shall be kept currently informed of the progress of its assistance activities under this Agreement. Either Party shall have the right, at any time, to observe the progress of operations on UNDP-assisted projects.

3. The Government shall, subsequent to the completion of a UNDP-assisted project, make available to the UNDP at its request information as to benefits derived from and activities undertaken to further the purposes of that project, including information necessary or appropriate to its evaluation or to evaluation of UNDP assistance, and shall consult with and permit observation by the UNDP for this purpose.

4. Any information or material which the Government is required to provide to the UNDP under this Article shall be made available by the Government to an Executing Agency at the request of the Executing Agency concerned.

5. The parties shall consult each other regarding the publication, as appropriate, of any information relating to any UNDP-assisted project or to benefits derived therefrom.

Article V

Participation and Contribution of Government in execution of Project

1. In fulfilment of the Government's responsibility to participate and cooperate in the execution of the projects assisted by the UNDP under this Agreement, it shall contribute the following in kind to the extent detailed in relevant Project Documents: [illegible] local counterpart professional and [illegible] and buildings, and training and other facilities available or produced within the country; and [illegible] equipment, materials and supplies available or produced within the country.

2. Whenever the provision of equipment forms part of UNDP assistance to the Government, the latter shall meet charges relating to customs clearance of such equipment, its transportation from the port of entry to the project site together with any incidental handling or storage and related expenses, insurance after delivery to the project site and its installation and maintenance.

3. The Government shall also meet the salaries of trainees and recipients of fellowships during the period of their fellowships.

4. As provided in the Project Document, the Government shall pay or arrange to have paid, to the UNDP as an Executing Agency the sums required, to the extent specified in the Project Budget of the Project Document, for the provision of any of the items enumerated in paragraph 1 of this Article, whereupon the Executing Agency shall obtain the necessary items and account annually to the UNDP for any expenditures out of payments made under this provision.

5. Moneys payable to the UNDP under the preceding paragraph shall be paid to an account designated for this purpose by the Secretary-General of the United Nations and shall be administered in accordance with the applicable financial regulations of the UNDP.

6. The cost of items constituting the Government's contribution to the project and any sums payable by the Government in pursuance of this Article, as detailed in Project Budgets, shall be considered as estimates based on the best information available at the time of preparation of such Project Budgets. Such sums shall be subject to adjustment whenever necessary to reflect the actual cost of any such items purchased thereafter.

7. The Government shall as appropriate display suitable signs at each project identifying it as one assisted by the UNDP and the Executing Agency.

Article VI

Assessed programme costs and other items payable in local currency

1. In addition to the contribution referred to in Article V above, the Government shall assist the UNDP in providing it with assistance by paying or arranging to pay for the following local costs or facilities, in the amounts specified in the relevant Project Document or otherwise determined by the UNDP, after consultation with the Government, in pursuance of relevant decisions of its governing bodies:

(a) The local living costs of advisory experts and consultants assigned to projects in the country;

(b) Local administrative and clerical services, including necessary local secretarial help, interpreter-translators, and related assistance;

(c) Transportation of personnel within the country; and

(d) Postage and telecommunications for official purposes.

2. The Government undertakes to furnish in kind the following local services and facilities:

(a) The necessary office space and other premises;

(b) Such medical facilities and services for international personnel as may be available to national civil servants;

(c) Simple but adequately furnished accommodation to volunteers; and

(d) Assistance in finding suitable housing accommodation for international personnel.

3. The Government shall also contribute towards the expenses of maintaining the UNDP mission in the country by paying annually to the UNDP a lump sum mutually agreed between the Parties to cover the following expenditures:

(a) An appropriate office with equipment and supplies, adequate to serve as local headquarters for the UNDP in the country;

(b) Appropriate local secretarial and clerical help, interpreters, translators and related assistance;

(c) Transportation of the staff of the UNDP mission for official purposes within the country;

(d) Postage and telecommunications for official purposes; and

(e) Subsistence for the staff of the UNDP mission while in official travel status within the country.

4. The Government shall have the option of providing in kind the facilities referred to in paragraph 3 above, with the exception of items (b) and (e).

5. Moneys payable under the provisions of this Article, shall be paid by the Government and administered by the UNDP in accordance with Article V, paragraph 5.

Article VII

Relation to assistance from other sources

In the event that assistance towards the execution of a project is obtained by either Party from other sources, the Parties shall consult each other and the Executing Agency with a view to effective co-ordination and utilization of assistance received by the Government from all sources. The obligations of the Government hereunder shall not be modified by any arrangements it may enter into with other entities co-operating with it in the execution of a project.

Article VIII

Use of assistance

The Government shall exert its best efforts to make the most effective use of the assistance provided by the UNDP and shall use such assistance for the purpose for which it is intended and shall in particular take such steps as are specified in the Project Documents.

Article IX

Privileges and Immunities

1. The Government shall apply to the United Nations and its organs, including the UNDP and U.N. subsidiary organs acting as UNDP Executing Agencies, their property, funds and assets, and to their officials, including the resident representative and other members of the UNDP mission in the country, the provisions of the Convention on the Privileges and Immunities of the United Nations.

2. The Government shall apply to each Specialized Agency acting as an Executing Agency, its property, funds and assets, and to its officials, the provisions of the Convention on the Privileges and Immunities of the Specialized Agencies and any other convention applicable to such Specialized Agency. In case the International Atomic Energy Agency (the IAEA) acts as an Executing Agency, the Government shall apply to its property, funds and assets and to its officials the Agreement on the Privileges and Immunities of the IAEA.

3. Members of the UNDP mission in the country may be granted such additional privileges and immunities as may be necessary for the effective exercise by the mission of its functions as agreed upon by the Parties.

4. (a) Except as the Parties may otherwise agree in Project Documents relating to specific projects, the Government shall grant all persons other than Government nationals employed locally, performing services on behalf of the UNDP, or of an Executing Agency who are not covered by paragraphs 1 and 2 above the same privileges and immunities as officials of the United Nations, the Specialized Agency concerned or the IAEA under Sections 18 (a) or 18 respectively of the Convention on the Privileges and Immunities of the United Nations or of the Specialized Agencies, or of the Agreement on the Privileges and Immunities of the IAEA.

(b) For purposes of the instruments on privileges and immunities referred to in the preceding parts of this Article:

(1) All papers and documents relating to a project in the possession or under the control of the persons referred to in sub-paragraph 4 (a) above shall be deemed to be documents belonging to the UNDP or the relevant Executing Agency concerned, as the case may be; and

(2) Equipment, materials and supplies brought into or purchased or leased by those persons within the country for purposes of a project shall be deemed to be property of the UNDP or of the relevant Executing Agency concerned, as the case may be.

5. The expression "persons performing services" as used in Articles IX, X and XIII of this Agreement includes volunteers, consultants, and juridical as well as natural persons and their employees. It includes governmental or non-governmental organizations or firms which UNDP may retain, whether as an Executing Agency or otherwise, to execute or to assist in the execution of UNDP assistance to a project, and their employees. Nothing in this Agreement shall be construed to limit the privileges, immunities or facilities conferred upon such organizations or firms or their employees in any other instrument.

Article X
Facilities for execution of UNDP assistance

1. The Government shall take any measures which may be necessary to exempt the UNDP, its Executing Agencies, their experts and other persons performing services on their behalf from regulations or other legal provisions which may interfere with operations under this Agreement, and shall grant them such other facilities as may be necessary for the speedy and efficient execution of UNDP assistance. It shall, in particular, grant them the following rights and facilities:

(a) prompt clearance of experts and other persons performing services on behalf of the UNDP or an Executing Agency;

(b) prompt issuance without cost of necessary visas, licenses or permits;

(c) access to the site of work and all necessary rights of way;

(d) free movement within or to or from the country, to the extent necessary for proper execution of UNDP assistance;

(e) the most favourable legal rate of exchange;

(f) any permits necessary for the importation of equipment, materials and supplies, and for their subsequent exportation;

(g) any permits necessary for importation of property belonging to and intended for the personal use or consumption of officials of the UNDP, its Executing Agencies, or other persons performing services on their behalf, and for the subsequent exportation of such property; and

(h) prompt customs clearance of the items mentioned in sub-paragraphs (f) and (g) above.

2. Assistance under this Agreement being provided for the benefit of the Government and people of the Democratic People's Republic of Korea, the Government shall bear all risks of operations arising under this Agreement. It shall be responsible for dealing with claims which may be brought by third parties against the UNDP or an Executing Agency, their officials or other persons performing services on their behalf, and shall hold them harmless in respect of claims or liabilities arising from operations under this Agreement. The foregoing provision shall not apply where the Parties and the Executing Agency are agreed that a claim or liability arises from the gross negligence or wilful misconduct of the above-mentioned individuals.

Article XI

Suspension or termination of assistance

1. The UNDP, after consultation with the Government, may by written notice to the Government and to the Executing Agency concerned suspend its assistance to any project if in the judgement of the UNDP any circumstance arises which interferes with or threatens to interfere with the successful completion of the project or the accomplishment of its purposes. The UNDP may, by written notice, indicate the conditions under which it is prepared to resume its assistance to the project. Any such suspension shall continue until such time as such conditions are accepted by the Government and as the UNDP shall give written notice to the Government and the Executing Agency that it is prepared to resume its assistance.

2. If any situation referred to in paragraph 1 of this Article shall continue for a period of fourteen days after notice of suspension shall have been given by the UNDP to the Government and the Executing Agency, then at any time thereafter during the continuance thereof, the UNDP may by written notice to the Government and the Executing Agency terminate its assistance to the project.

3. The provisions of this Article shall be without prejudice to any other rights or remedies the UNDP may have in the circumstances, whether under general principles of law or otherwise.

Article XII

Settlement of disputes

Any dispute between the UNDP and the Government arising out of or relating to this Agreement which is not settled by negotiation or other agreed mode of settlement shall be submitted to arbitration at the request of either Party. Each Party shall appoint one arbitrator, and the two arbitrators so appointed shall appoint a third, who shall be the chairman. If within thirty days of the request for arbitration either Party has not appointed an arbitrator or if within fifteen days after the appointment of two arbitrators the third arbitrator has not been appointed, either Party may request the President of the International Court of Justice to appoint an arbitrator. The procedure of the arbitration shall be fixed by the arbitrators, and the expenses of the arbitration shall be borne by the Parties as assessed by the arbitrators. The arbitral award shall contain a statement of the reasons on which it is based and shall be accepted by the Parties as the final adjudication of the dispute.

Article XIII

General Provisions

1. This Agreement shall enter into force upon signature, and shall continue in force until terminated under paragraph 3 below.

2. This Agreement may be modified by written agreement between the Parties hereto. Any relevant matter for which no provision is made in this Agreement shall be settled by the Parties in keeping with the relevant resolutions and decisions of the appropriate organs of the United Nations. Each Party shall give full and sympathetic consideration to any proposal advanced by the other Party under this paragraph.

3. This Agreement may be terminated by either Party by written notice to the other and shall terminate sixty days after receipt of such notice.

4. The obligations assumed by the Parties under Articles IV (concerning project information) and VIII (concerning the use of assistance) hereof shall survive the expiration or termination of this Agreement. The obligations assumed by the Government under Articles IX (concerning privileges and immunities), X (concerning facilities for project execution) and XII (concerning settlement of disputes) hereof shall survive the expiration or termination of this Agreement to the extent necessary to permit orderly withdrawal of personnel, funds and property of the UNDP and of any Executing Agency, or of any persons performing services on their behalf under this Agreement.

IN WITNESS WHEREOF the undersigned, duly appointed representatives of the United Nations Development Programme and of the Government of the Democratic People's Republic of Korea respectively, have on behalf of the Parties signed the present Agreement in the English and Korean languages in two copies each at New York this eighth day of November 1979.

For the United Nations Development Programme

/s/ Bradford Morse
Administrator
United Nations Development Programme

For the Government of the Democratic People's Republic of Korea

/s/ Han Si Hae
Ambassador Extraordinary and Plenipotentiary
Permanent Observer of the Democratic People's Republic of Korea to the United Nations

Enclosure

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

December 22, 2006

Dear Mr. Dervis:

Thank you for the follow-up meeting December 22nd to discuss United States concern with the UNDP program in North Korea. As you know, this is a matter of the utmost importance to my Government. We maintain that it is imperative that we reach an expeditious and comprehensive understanding of UNDP activities in North Korea.

As we agreed in the meeting today. we are expecting to receive from you the following:

1. Internal and/or external UNDP audits of the country office in North Korea from the years 1998, 2001 and 2004, subject to your discussion with me of this matter during the first week of January 2007.

2. A line-by-line budget for the UNDP/DPRK Office of the Resident Representative, preferably, for at least the last three years.

3. UNDP written rules, procedures, and/or policies for waiving the UN/UNDP rules and restrictions on the use of hard currency transactions for in-country expenditures, including copies of any and all such waivers as they may relate to UNDP programs in the DPRK.

4. Confirmation that you will formally take action to retain and preserve any and all documents and materials including, but not limited to, electronic media related in any way to UNDP's program in North Korea during the last seven years.

Mr. Kemal Dervis,
Administrator,
United Nations Development Program,
One United Nations Plaza, Room 2128,
New York, NY 10017.

Permanent Subcommittee on Investigations
UNDP Report - FN 80

As we agreed, I look forward to talking with you during the first week of January 2007 about this matter.

Thank you for your attention to this matter, and happy holidays.

Sincerely,

Mark D. Wallace
Ambassador

United Nations Development Programme
The Associate Administrator

5 January 2007

Dear Mr. Ambassador,

Please find below the response to the issues raised in your letters to the Administrator dated December 22, 2006 and January 4, 2007 on the UNDP program in North Korea.

Allow me first to provide you with some general context that defines our operations in the specific situation of DPRK.

Our mandate to operate is entirely derived from the decisions by the UNDP Executive Board on the design and approval of Country Programmes, including their implementation. This work by definition requires cooperation with the government of the UN Member States in which UNDP operates. As long as the Board expects us to remain active in any country (in this case DPRK) a flow/exchange of hard currency is inevitable. This is in accordance with UNDP's Financial Regulations and Rules. Permit me therefore to say that your unqualified statement (in the January 4 letter) that UNDP would "transfer hard currency directly to the Kim regime" seems to disregard the general conditions for our operation in the country as described, i.e. allowing for a flow of hard currency exclusively made available for the defined Programme, as mandated by the Board for implementation in cooperation with the government concerned.

Over the years 2001 to 2005, UNDP expended an average of (the equivalent of) $2.3 million per year on both program and administration, including approximately (the equivalent of) $100,000 each year for local salaries.

Furthermore, in terms of the transparency of our reporting, I would like to refer to standing procedures that have been agreed upon with and by the Executive Board. At any time we would be ready to reconsider these as necessary and we fully respect the wish by Member States to receive additional information in specific circumstances. I trust that you would agree with me that the provision of such information in principle should be part of generally established procedures. On the basis of what is currently defined as reporting duties for UNDP, I would appreciate your reconsideration of references to "inconsistent information" and "lack of transparency" (in the January 4 letter). I hope that the extensive additional information that we are providing as part of this response as to your specific request will assist in alleviating further concerns.

His Excellency
Mr. Mark D. Wallace
United States Representative for United Nations Management and Reform
Permanent Mission of the United States of America to the United Nations
New York, N.Y.

Turning now to your specific questions in the December 22 letter, I would like to state the following.

Ad 1) Please find enclosed an overview of the recommendations from all audits conducted (from the years 1999, 2001 and 2004), along with the current status of their implementation.

Ad 2) Please find enclosed the line-by-line budgets for both the office of the Resident Representative and the UNDP Programme for the last three years.

Ad 3) As to your question concerning UNDP's written regulations, rules, procedures and/or policies on the use of hard currency in the particular case of DPRK, I would first like to refer to what has been stated in the general introduction above. For countries in which the local currency is locally convertible – as is the case in DPRK – it is a matter of practical consideration to define options and limitations concerning hard currency transactions, as is included in the internal manual on administration and management that guides the Res Reps in their implementation. This takes into consideration the requirement to limit the devaluation of accumulated local currency, and utilizing local currency where applicable. However the decision regarding the choice of currencies utilized is delegated to the Resident Representative. As a consequence no waiver procedure needs to be in place for DPRK.

As stated by the Administrator in our meeting on December 22, 2006 we have informed the government earlier that salaries of seconded national staff, local purchase of goods and services, local travel allowances and other similar expenses will in future be paid in convertible won. This can only be obtained by converting hard currency in the state bank of DPRK.

Ad 4) As stated during our meeting on December 22, 2006 UNDP has a retention policy that requires accounting documents to be retained for a period of seven years after the finalization/approval of the document. We have informed the UNDP Country Office in DPRK that hard copies of accounting documents that exist at this point in time, as well as information stored electronically should not be destroyed until further notice.

Finally, on the point made in the January 4 letter concerning access to internal audit reports I would like to refer to the Administrator's response in the cover letter to the information provided in my note.

Please don't hesitate to ask further clarification if needed, which I would be happy to provide.

Yours sincerely,

Ad Melkert

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

January 8, 2007

Dear Mr. Dervis,

Thank you for the telephone discussion with your Chief of Staff, Tegegnwork Gettu, on Friday January 5, 2007. In our discussion Mr. Gettu confirmed that I would receive correspondence later in the day regarding UNDP programs in the DPRK. We also discussed the UNDP decision to not provide full copies of internal audit reports. Mr. Gettu indicated that UNDP would consider allowing me to review the internal audit reports on site and in person and that you would confirm this understanding. **Please let me know when I may review UNDP internal audit reports on the DPRK on site and in person.**

Also in our call we discussed the UNDP sponsored (and paid for) business class travel of DPRK officials to New York this past weekend. Mr. Gettu indicated that he would look into this matter. At your earliest convenience please provide information as to:

a. **The identities of the DPRK officials and their official titles and responsibilities;**
b. **The purpose of the visit;**
c. **Their business schedules during their stay in New York City;**
d. **The total cost of their visit to UNDP and the source of the payment of such funds;**
e. **The UNDP rules and regulations that permit UNDP to provide travel (business class) and accommodation to these particular officials for the purpose of attending the Executive Board.**

As you promised in the call, I did receive three (3) letters from UNDP late Friday -- including a letter from you and two letters from Mr. Melkert – and certain financial information regarding the UNDP program in the DPRK. Thank you for the letter responses and the financial information. We are carefully examining the financial information and we will contact you with any questions or comments separately.

Mr. Kemal Dervis,
Administrator,
United Nations Development Program,
One United Nations Plaza, Room 2128,
New York, New York 10017.

Permanent Subcommittee on Investigations
UNDP Report - FN 82

As to your letter: **Is permission or authorization from the Executive Committee required in order for UNDP to share the internal audits of DPRK with Executive Board members? If so, please indicate what authority imposes this requirement. If there is a meeting of the Executive Committee to discuss UNDP Executive Board members' access to UNDP internal reports of the DPRK, please let me know the date of such meeting**. While the United States Government (USG) understands the importance of permitting UNDP Executive Committee appropriate "management tools," the USG maintains that Executive Board members should have access to full and complete UNDP audit reports as they relate to the UNDP DPRK program. Please convey these sentiments to the Executive Committee.

As to Mr. Melkert's letter on the UNDP program in DPRK and in response to my letters dated December 22, 2006 and January 4, 2007:

In the letter Mr. Melkert states that the UNDP Executive Board approves the "design" and "implementation" of UNDP "Country Programmes" and that hard currency must be transferred in DPRK to effectuate the Programme. "[a]s long as the Board expects us to remain active in any country (in this case DPRK) a flow/exchange of hard currency is inevitable. This is in accordance with UNDP's Financial Regulations and Rules." **We understand that UNDP normally requires that local expenditures on its field offices, including local staff salaries, are to be paid exclusively in local currency. Please provide the rules and/or administrative issuances that impose such a requirement.**

In addition, I would appreciate your providing me with the specific UNDP Executive Board action and/or minutes where the Executive Board specifically approved the DPRK Country Programme with any and all specific references to the payment of hard currency (US and/or Euro) in the DPRK (for e.g. local salaries and local procurement) and/or directly to the DPRK government. Finally, so that my Government can better understand UNDP's controlling authorities, please provide me with the specific UNDP Financial Regulations and Rules that permit the payment of hard currency (US and/or Euro) in the DPRK and/or directly to the DPRK government.

The USG does appreciate the information that you provided. Nonetheless and notwithstanding the statements contained in your letter, to date, in the various interactions between the US Mission to the UN and UNDP staff we have received inconsistent information on various fronts of inquiry. Your letter of January 5th also contains an apparent inconsistency from the statements made in our meeting of December 22nd.

In our meeting of December 22nd you stated that the decision to make payments in hard currency (Euro) in the DPRK was made as a result of a waiver process personally signed off on by the UNDP Administrator. In your letter of January 5, 2006, you state that "the decision regarding the choice of currencies utilized is delegated to the Resident Representative. As a consequence no waiver procedure needs to be in place for the DPRK." **What are the specific UNDP Financial Rules and Regulations that permit the delegation of any such authority of the Administrator to the Resident Representative to make payments in the DPRK and/or to the DPRK government in hard currency (US and/or Euro)? Moreover, I would appreciate you providing me copies of any such written delegation of authority to the DPRK Resident Representative.**

To better understand the waiver process please also provide me with copies of any and all documents (including e-mails, memos and/or international cables) that reflect the decision making process of the DPRK Resident Representative to permit payment of hard currency (US and/or Euro) in the DPRK and/or directly to the DPRK government. Have any UNDP staff and/or other UN staff expressed concern that UNDP has been and continues to permit payment of hard currency (US and/or Euro) in the DPRK and/or directly to the DPRK government? If they have, please identify such concerns and provide any and all documents including e-mails, memos, and/or international cables that reflect such concern.

Mr. Melkert's letter also addresses UNDP's document retention policy. Mr. Melkert states that "UNDP has a retention policy that requires ***accounting*** documents to be retained for a period of seven years after the finalization/approval of the document." (Emphasis added). For clarification and for your information my request to retain and preserve documents and materials related in any way to the UNDP program in DPRK was not limited to ***accounting*** documents. The request covered ***all*** documents and materials including such as but not limited to e-mails, written memos, and/or international cables.

Again, please confirm that you will formally take action to retain and preserve *any and all* documents and materials (such as but not limited to e-mails, written memos and international cables) including but not limited to, electronic media related in any way to UNDP's program in North Korea during last seven years. To the extent that you and or your immediate staff are aware of the destruction (including the erasure from electronic media) of any documents related to the UNDP program in DPRK, please provide us with a detailed description of your understanding.

I will separately and more specifically respond to Mr. Melkert's January 5, 2007 letter regarding my letter of November 17, 2006 on the UNDP Office of Audit and Performance Review.

I appreciate all of your help.

Thank you for your attention to this matter.

Sincerely,

Mark D. Wallace
Ambassador

cc: Mr. Ad Melkert
Mr. Tegegnwork Gettu

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

January 16, 2007

Dear Mr. Melkert,

I enjoyed our discussion over breakfast this morning and I understand that Mr. Dervis is currently on travel.

Thank you again for allowing me to lead a United States Mission to the United Nations Management Review Section (USUN MR) team on an in person review of certain UNDP DPRK internal audits on January 11, 2007. At the meeting UNDP made available three (3) Internal Audits (1999, 2001, 2004) for USUN's on site review (no photocopies permitted).

For your information the following specific points and conclusions were drawn directly from the Audits during the Six (6) hour in person review by USUN MR.[1] The Audits reveal that:

1. UNDP local staff is dominated by DPRK government employees;
2. UNDP DPRK government employees have performed financial and program managerial core functions in violation of UNDP rules;
3. The DPRK government insists upon and UNDP pays cash to local DPRK government suppliers in violation of UNDP rules;
4. UNDP funds DPRK controlled projects without the oversight required by UNDP rules;
5. There is no audit review of DPRK controlled programs in violation of UNDP rules;

Mr. Ad Melkert,
Associate Administrator,
United Nations Development Program,
One United Nations Plaza, Room DC1-2118,
New York, New York 10017.

[1] USUN relies solely on the accuracy of these KPMG and UNDP internal audits in determining the efficacy of the statements included in this letter

6. The DPRK refuses to allow outside audits of any DPRK projects and instead either limits UNDP audits or utilizes "sham" DPRK audits in violation of UNDP rules;
7. UNDP officials are not permitted to perform site visits to many UNDP DPRK projects in violation of UNDP rules;

The UNDP program has laudable goals of providing assistance to the North Korean peoples. Unfortunately, because of the actions of the DPRK government and the complicity of UNDP, at least since 1998 the UNDP DPRK program has been systematically perverted for the benefit of the Kim Jong Il regime – rather than the people of North Korea. The UNDP DPRK program has for years operated in blatant violation of UN rules, served as a steady and large source of hard currency and other resources for the DPRK government with minimal or no assurance that UNDP funds and resources are utilized for legitimate development activities. Importantly, UNDP apparently has failed to bring the widespread violation of UNDP rules in the DPRK country program to the attention of the UNDP Executive Board.

Each Audit found that the UNDP DPRK program was only Marginally or Partially Sufficient indicating, "timely corrective action is required by management."

As of December 31, 1998, UNDP had three (3) international staff (Resident Representative "RR", Deputy "DRR" and Associate "ARR") and fourteen (14) local staff in the DPRK program. 1999 Audit pg. 22 of 50. As of 2001, UNDP had sixteen (16) total staff – two (2) International Staff, and fourteen (14) local staff in the DPRK. Of the 14 local staff, three (3) served in program functions and eleven (11) served in administration and finance functions. 2001 Audit, Annex pg. 4 of 5. As of 2004 the UNDP DPRK program consisted of two (2) International staff and twenty-two (22) local Staff and one SSA (consultant). Of the 22 local staff, nineteen (19) served as general services staff and three (3) served as national program officers. 2004 Audit pg. 14 of 57.

All UNDP local staff in the DPRK are seconded from and controlled by the DPRK government. Various Citations in all Audits, e.g. 2001 Audit pg. 22 of 50. In apparent violation of UNDP rules, UNDP pays all local staff salaries directly to the DPRK government, as dictated by the DPRK, which is to then "pass on" payment to the local seconded staff. UNDP pays $120.00 per month in a meal allowance directly in cash to the local staff also in apparent violation of UNDP rules. 2004 Audit pg. 31 of 57.

Local DPRK (government) personnel perform most UNDP office functions as local staff or under SSA or SC's (consulting contracts) including "core" functions required to be performed by international staff in violation of UNDP rules. For example apparently a local DPRK national working under contract performed the following functions:

- Bank Signatory and certifying officer functions
- Personnel Actions
- Prepares Contracts and Travel Authorizations
- Manages Petty Cash and maintains financial records

- Acts as staff officer to dispose of equipment and supplies

According to UNDP management, "[i]n view of the fact that all National Staff are not UNDP staff as the DPRK government seconds them and thus they are (DPRK) government employees. Therefore in the absence of the regular international staff we had no choice but to assign the functions of certifying office and bank signatory to the (local staff) Special Services Agreement holder...." 2001 Audit pg. 26 of 50. UNDP management of petty cash is inadequate and without appropriate controls. The UNDP check book is not adequately controlled or kept in a secure location and no check register is kept reflecting checks written. e.g. 1999 Audit pg. 35-37 of 45.

As of 1999 there were twenty-nine (29) ongoing UNDP projects in the DPRK with a total budget of $27.86 million. There are two general types of projects:

1. DPRK National Execution programs (NEX) which are "nationally executed" by the DPRK government with UNDP paid funds. Such programs constituted 66.7% of all DPRK programs;
2. UNDP directly executed programs which constituted 28.7% of all DPRK programs.

1999 Audit pg. 7 of 45. The Audits criticize UNDP for routinely making direct payments to the DPRK (supposedly for disbursement) for DPRK NEX Programs. UNDP pays directly in cash for all local expenditures for UNDP executed programs. 1999 Audit pg. 22 of 45.

UNDP does not use Local Purchase Order (PO's) forms and all local purchases are made with cash. 1999 Audit pg. 4 of 44. Even purchases over $1,000.00 are made in cash. 1999 Audit pg 38 of 45. There are no local DPRK suppliers other than the DPRK government, the DPRK government fixes all prices, and the DPRK does not accept PO's. The DPRK government does not accept checks – only cash. There are no annual DPRK government contributions (in-kind or otherwise) towards local in-country UNDP office costs ("GLOC") – meaning the DPRK charges and UNDP pays the DPRK for all local office costs including such as rent.[2] 1999 Audit pg 39 of 45. As a result all of UNDP's local expenditures and procurement are paid in cash directly to the DPRK government.

KPMG sampled certain program projects during the 1999 and 2001 Audits. In 2001 KPMG sampled twelve (12) DPRK projects and found that UNDP did not maintain financial reports or audits of seven (7) of the 12 sampled projects. 2001 Audit pgs. 12-15 of 50. "However it should be noted that the NEX audits (performed by the DPRK government) are generally defective and do not clearly identify and address issues which require follow-up." 2001 Audit pg 17 of 50. There are "serious deficiencies in the NEX audits" and "it is not possible to ascertain who is actually responsible for carrying out the NEX audits.... [in the DPRK government]." 2001 Audit pg 18 of 50. "There are no government (DPRK) auditors as such" and each NEX "audit" is carried out by the

[2] But see 1999 Audit pg 14 of 15, where UNDP comments that local contributions are generally office space and national staff time.

respective DPRK ministry designated as government executing agent. 2001 Audit pg. 21 of 50.

UNDP rules require at east one (1) project field visit per year. In 1999 KPMG analyzed a sample of five (5) selected projects and concluded that there were no project field visits to three (3) of the projects (for many years). UNDP cannot fulfill the one (1) project field visit per year rule because the DPRK prohibits foreign visitors (including UNDP international staff) from visiting various UNDP DPRK project sites. 1999 Audit pg. 14 of 50.

Simply put, in the absence of real audits and site visits it is impossible for UNDP to verify whether or not any of the funds paid to the DPRK for supposed use in UNDP programs have actually been used for bona fide development purposes or if the DPRK has converted such funds for its own illicit purposes.

Based on the above described, and disturbing findings as well as the information exchanged in our earlier correspondence, it is imperative that UNDP shine the bright light of real oversight on the DPRK program. Without real transparency and without truly understanding the nature of the UNDP program in DPRK, no Executive Board Member will be in a position to make an informed decision on the appropriate continuation or deferral of the DPRK program.

Accordingly, I urge you to immediately institute a full independent and outside forensic audit of the DPRK country program going back to at least 1998 with an emphasis on our concern that the DPRK regime has converted the development resources of the UN and UNDP to its own illicit purposes.

I appreciate all of your help.

Thank you for your attention to this matter.

Sincerely,

Mark D. Wallace
Ambassador

United Nations Nations Unies

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

Ethics Office / Bureau de la déontologie

CONFIDENTIAL

TO: Mr. Kemal Dervis
A: Administrator, UNDP

DATE: 17 August 2007

FROM: Robert Benson
DE: Director, Ethics Office

SUBJECT: **Re. Our File 2007/129**
OBJET:

I wish to thank UNDP for submitting such a detailed and thorough submission regarding the protection from retaliation case for which I have been conducting a review.

While, from a purely legal perspective, the Ethics Office does not have the jurisdiction to address a request for protection from retaliation in relation to cases arising from UNDP, as Director of the Ethics Office, I undertook the review of this case based upon the following:

(i) I received what I considered to be sincere and deeply concerned representations from the President of UNDP's Staff Council, who are clearly interested in ensuring this matter be dealt with in the best interests of UNDP;
(ii) an absence of an applicable protection from retaliation policy within UNDP;
(iii) the direct and public intervention of one of the Executive Board members of the UNDP; and
(iv) accountability in this matter is ultimately to the General Assembly.

On this latter point, that is accountability to the General Assembly, I note that UNDP has itself acknowledged its accountability to the General Assembly through its Executive Board and ECOSOC.

One has to appreciate that in addressing a protection from retaliation case, three significant steps are involved. The first involves a preliminary determination whether a prima facie case of retaliation has been made out; if so, then, during the second phase, the burden shifts to the Organization to establish that the 'prima facie' retaliation was not as a consequence of the individual's participation in a protected activity. During this second phase, a thorough and detailed investigation of the facts of the case is undertaken. The information UNDP has raised in its submission would be considered during this phase, and it would be considered in the context of the UN's Charter and accountability to the General Assembly. During the final phase, if in fact it is found that there was a retaliatory act, appropriate measures would be recommended in order to address the issues that have arisen as a consequence of the original complaint.

In the present case, we discussed the possibility of UNDP, without ceding jurisdiction in future cases, allowing this case to proceed within the parameters of ST/SGB/2005/21. However, you

have indicated that after discussing this matter further, and in light of ongoing inquiry being undertaken by the Board of Auditors, UNDP wishes to conduct its own external review.

When I undertook my review of this case, it was done so within the parameters of ST/SGB/2005/21. Indeed, the Ethics Office received independent and corroborative information in relation to whether a prima facie case of retaliation has been established.

While it is now understood that the case will not proceed any further within the parameters of ST/SGB/2005/21, I must advise that had the jurisdiction of the protection from retaliation bulletin applied, the information received by the Ethics Office would have supported a determination that a prima facie case had been established in this case.

Should UNDP wish to reconsider pursuing this matter within ST/SGB/2005/21, I believe it would be in best interests of the United Nations and UNDP to do so.

cc: Mr. Secretary-General
Mr. Nambiar
Mr. Melkert
Mr. Shkurtaj
Mr. Samaras

United Nations Development Programme

Newsroom

25 September 2007

Independent Investigative Review of UNDP Operations in DPRK

Terms of Reference

The Independent Investigative Review shall consist of a comprehensive and detailed investigative review of the UNDP Democratic People's Republic of Korea (DPRK) country office operations during the period 1 January 1999 to 1 March 2007, and shall result in the submission of a report to the Administrator and the UNDP Executive Board. The report shall determine what funds were paid arising out of and/or relating in any way to the UNDP DPRK country programme. It shall also include payments made by UNDP on behalf of other UN entities, other entities and/or other countries. The report shall make every effort to determine whether such funds were used for their authorized or intended purposes, or were diverted for other purposes. If there is evidence that any such funds may have been diverted, the report shall indicate the manner of such diversion or possible diversion.

The report shall specifically:

1). Identify all payments made by UNDP for itself and by UNDP on behalf of other UN entities, other entities and/or other countries to suppliers of goods and services, including payments made through intermediaries, and determine to the extent possible whether such payments were received by the ultimate beneficiaries. The Report shall identify the bank accounts utilized by or for the benefit of the UNDP Administered activities, including the persons that had signature authority in regard to such accounts.

2). Determine if the projects implemented under the country programme were managed and implemented in accordance with UNDP regulations, rules, guidelines and practices, and with UNDP's Standard Basic Assistance Agreement with the DPRK Government, including whether such projects were effectively monitored and evaluated regularly in accordance with such regulations, rules, guidelines and practices. The report shall identify, enumerate and confirm all project site visits, whether more visits should have been made in accordance with UNDP policies and procedures and whether UNDP international personnel participated in such visits.

3). Identify all equipment that may qualify as having "dual use" procured by or for UNDP projects or procured by UNDP for other UN entities, other entities and/or other countries, and make every effort to determine whether, within the parameters of the rules and regulations that existed at the time, including legal interpretation of such rules and regulations, such equipment was exported by the concerned vendors in compliance with applicable international export licensing requirements, the nature of the equipment, the names of the vendors who supplied such equipment, and the current disposition and location of such equipment.

4). Identify the facts relating to any counterfeit or suspected counterfeit currency that came into the custody of the UNDP Administered country office or of which the country office became aware, including any applicable UNDP policies regarding the reporting of such counterfeit currency to the relevant issuing country and the actions taken by UNDP in regard to such currency.

5). A complaint has been lodged that UNDP retaliated against an individual for "blowing the whistle" on

irregularities in its operations in DPRK. In this respect, review the complainant's allegations related to these operations and the alleged retaliation, make every effort to establish the facts, including about the specific events in DPRK and regarding application of relevant protection policies. After completing the review, the Independent Review Team shall share its findings on this aspect of the Independent Investigative Review with the Director, UN Ethics Office. The Director, UN Ethics Office, could then provide an opinion and formulate recommendations, as may be appropriate, on the retaliation allegations in light of these findings. If the UN Ethics Office requires further investigation of this specific issue, after having reviewed the findings of the investigative review, it can arrange for such follow-up before providing its recommendations, with the full cooperation of UNDP.

6). The Independent Investigative Review may make any recommendations as its sees fit based on conclusions drawn from this Independent Investigative Review, including regarding UNDP's protection policies and any lessons-learned.

In performing its work, the Independent Review Team shall:

A). Take into account the work already carried out and to be carried out by the UN Board of Auditors, and not impair the work of the UN Board of Auditors.

B). Have complete and unrestricted access in New York or wherever they are available and accessible for review to all records in whatever form or media wherever located as is necessary to complete its review and report including but not limited to: UNDP's complete manual checkbook, records of all electronic funds transfers, all other related bank account documents, contracts, receipts, MOUs, all documents related to project site visits and monitoring, all documents related to "dual use" equipment including applications, grants or denials of export licenses, and other relevant documents that are made available to the Independent Review Team from sources other than UNDP, including private individuals or governmental entities. UNDP shall make all records in its custody or subject to its authority available to the Independent Review Team.

C). Endeavor to interview in New York or wherever available and accessible all parties with knowledge of UNDP operations in the DPRK as the Independent Review Team deems necessary. The Team shall have complete and unrestricted access to all current and former UNDP employees, contractors, and UN Volunteers (collectively "UNDP Personnel") that worked in UNDP, including the DPRK country office, or in relation to the DPRK country program during the relevant time period. UNDP shall use best efforts to make such persons available to the Independent Review Team. Neither UNDP management nor their representatives may be present during any interviews conducted by the Independent Review Team of current or former UNDP Personnel, unless otherwise requested by the Independent Review Team. The statements made in such interviews shall be kept confidential by the Independent Review Team except to the extent such information is cited in the final report. In the case of the final report submitted, the names and identities of such individuals shall be appropriately protected. All information and documents obtained by the Independent Review Team in the course of performing their work shall be treated with utmost confidentiality and shall be used solely for the purposes of the Investigative Review.

D). The Independent Investigative Review will not seek nor accept supervision or guidance from the Administrator, the Associate Administrator or any other officials or staff of UNDP or of the UN in the conduct of the Independent Investigative Review, or from members of the UNDP Executive Board or from any other Government, and will at all times avoid any conflict of interest or appearance of conflict with UNDP or its officials or personnel. Nothing in this paragraph shall preclude any person from providing relevant information in any form to the Independent Review Team.

E). The Independent Review Team shall be remunerated in accordance with standard UNDP remuneration rates, including travel. The Independent Review Team shall determine its own support staff/Secretariat (logistical support) arrangements, taking into account the need for confidentiality.

Where support services are contracted, the services shall be on the basis of standard UNDP remuneration rates and contract terms, in accordance with UNDP procurement rules. Where services of experts and outside consultants (firms/individuals) are required, the Team shall apply UNDP procurement rules, ensuring competency, best value for money, and taking into account any real or perceived conflict of interest.

F). The work of the Independent Review Team shall commence as soon as feasible and the final report should submitted if at all possible before the end of 2007.

G). The working papers of the Independent Review Team will be packaged and sealed and provided to the Secretary-General for safe-keeping for a period of seven (7) years, consistent with UNDP's document retention policy. Access to the working papers shall be limited to such circumstances as may be agreed by the Secretary-General.

United Nations ST/SGB/2007/11

Secretariat

30 November 2007

Secretary-General's bulletin

United Nations system-wide application of ethics: separately administered organs and programmes

The Secretary-General, for the purpose of securing the highest standards of ethics and integrity of United Nations staff members and ensuring the consistent application of such standards within the United Nations including its separately administered organs and programmes; in accordance with Article 101, paragraph 3, of the Charter of the United Nations, taking into consideration paragraph 161 of the 2005 World Summit Outcome,[1] pursuant to General Assembly resolution 60/248, and consistent with Secretary-General's bulletin ST/SGB/2005/22 of 30 December 2005, entitled "Ethics Office — establishment and terms of reference"; and in consultation with the executive heads of separately administered organs and programmes, the Secretary-General hereby promulgates the following:

Section 1

Principles

1.1 The ultimate goal and principle of an Ethics Office of a separately administered organ or programme of the United Nations, established by the Executive Head of the organ or programme, pursuant to the present bulletin, shall be to cultivate and nurture a culture of ethics, integrity and accountability, and thereby enhance the trust in, and the credibility of, the United Nations, both internally and externally.

1.2 Independence, impartiality and confidentiality are vital prerequisites for the functioning and operation of an Ethics Office of a separately administered organ or programme of the United Nations, and they shall be fully respected.

1.3 In the performance of their responsibilities and duties, the Ethics Offices of a separately administered organ or programme of the United Nations shall not be compelled by any United Nations official or body to disclose issues brought to their attention. This is without prejudice to the role of the Ethics Office in the Secretariat as set out in section 4 below.

[1] See General Assembly resolution 60/1.

07-62109 (E) 301107
0762109

Permanent Subcommittee on Investigations
UNDP Report - FN 89

1.4 The present bulletin shall be read in conjunction with Secretary-General's bulletin ST/SGB/2005/22 of 30 December 2005, entitled "Ethics Office — establishment and terms of reference".

Section 2

The head of the Ethics Office of a separately administered organ or programme

2.1 Each Ethics Office of a separately administered organ or programme shall be headed by an Ethics Officer, who shall function independently and report directly to the Executive Head of the respective separately administered organ or programme. When appointed, these ethics officers assume the relevant functions of existing ethics focal points as described in section 3 below. The Chairperson of the United Nations Ethics Committee, whose role is set out in section 5 below, will provide input into the annual performance assessment of each of the Ethics Officers.

2.2 If a separately administered organ or programme has not designated an Ethics Officer by January 2008, the Ethics Office of the United Nations Secretariat shall discharge the duties and responsibilities of the Ethics Office, as set out in this bulletin, until the separately administered organ or programme designates an Ethics Officer.

2.3 The Chairperson of the Ethics Committee is responsible for providing functional leadership to all Ethics Officers of the funds and programmes, in order to promote the building and developing of capacity, including adequate levels of professionally qualified resources; and ensure adherence to consistent methodology in the delivery of ethics-related services.

2.4 The responsibilities of an Ethics Officer of a separately administered organ or programme's Ethics Office shall neither prejudice or replace existing investigative or other relevant mechanisms, nor replace procedures for the administration of justice of the separately administered organs or programmes or the Secretariat, established in accordance with the relevant staff regulations and rules.

Section 3

Terms of reference of the Ethics Office of a separately administered organ or programme

An Ethics Office of a separately administered organ or programme shall have the following responsibilities:

(a) Developing standards, training and education on ethics issues, in coordination with the relevant units of the separately administered organs and programmes such as Legal, Internal audit/Oversight, and Human resources, as appropriate, as well as the United Nations Ethics Committee, as set out in section 5 below, in order to ensure that there is a uniform and consistent application of ethics-related issues within the United Nations system;

(b) Providing guidance to management of the separately administered organ or programme concerned to ensure that the Organization's rules, policies, procedures and practices reinforce and promote the standards of integrity called for under the Charter of the United Nations;

(c) Providing confidential advice and guidance to staff of the separately administered organs or programmes on ethical issues;

(d) Serving as a focal point for raising staff awareness within the separately administered organ or programme on ethical standards and expected behaviour within the context of oversight of each separately administered organ or programme as well as human resources development policies, strategies and programmes and in close cooperation with its respective oversight and human resources organizational units;

(e) Undertaking the responsibilities assigned to the Ethics Office in accordance with the policy for the protection of staff against retaliation of the respective separately administered organ or programme;

(f) In the absence of a separately administered organ or programme having in place a policy for protection against retaliation, staff members of the separately administered organ or programme may request protection from retaliation under Secretary-General's bulletin ST/SGB/2005/21;

(g) Administering the financial disclosure programme of the respective separately administered organ or programme, except for those staff members at Assistant Secretary-General level and above, for whom the programme will continue to be administered by the Ethics Office of the United Nations Secretariat;

(h) Providing to the executive heads of separately administered organs or programmes an annual report on the activities of the Ethics Office.

Section 4

Independence of the Ethics Offices of separately administered organs and programmes and the rights of staff members

4.1 In order to safeguard and ensure that all matters associated with the discharge of duties and responsibilities of the Ethics Office of the separately administered organ or programme are independent and free from any undue pressure and influence, solely at the discretion of the head of a separately administered organ's or programme's Ethics Office, he or she may refer any matter within the Office's area of responsibility, at any time, to the Chairperson of the United Nations Ethics Committee for advice and guidance, and shall inform the Executive Head of the separately administered organ or programme of the referral made.

4.2 Staff members of the separately administered organ or programme shall seek recourse with the Ethics Office of the respective separately administered organ or programme, and use the existing policies, procedures and resources available within the separately administered organ or programme to address ethical issues. In principle, allegations of retaliation shall be handled by the respective competent and authorized units within each separately administered organ or programme.

4.3 If, following the receipt of a request for advice or complaint submitted by a staff member in accordance with subparagraph (c) or (e) of section 3 above, the respective Ethics Office does not, within forty-five days, formally consider the request, the staff member may then refer the matter in writing to the Chairperson of the United Nations Ethics Committee. Alternatively, if following a final determination by the respective Ethics Office of a matter referred to it by a staff member, the said staff member wishes to have the matter reviewed further, he or she may, in writing, refer the matter to the Chairperson of the Ethics Committee. In such an event, the Chairperson, after consultation with the Ethics Committee, may

undertake his or her own independent review of the matter and provide a written report to the Executive Head of the separately administered organ or programme. Independent review for the purposes of this provision shall include review of the actions already taken by the concerned Ethics Office, determination of what additional actions are required, including, in the case of matters falling under subparagraph (e) of section 3, whether referral for investigation is warranted based on the requirements of the policy for protection against retaliation of the concerned Ethics Office, and provision of recommendations to the Executive Head of the concerned separately administered organ or programme. The Chairperson will include a summary of all such cases in the annual report of the activities of the Ethics Office of the United Nations Secretariat.

4.4 Where a matter has been referred for advice and guidance by an Ethics Officer of a separately administered organ or programme to the Chairperson of the Ethics Committee pursuant to section 4.1 above, or where a staff member has referred a matter pursuant to section 4.3 above to the Chairperson of the Ethics Committee, the Executive Head of the separately administered organ or programme shall provide the Chairperson with the necessary support, including access to records, staff members and contractors, where feasible.

Section 5

United Nations Ethics Committee

5.1 The United Nations Ethics Committee shall be established consisting of the heads of the Ethics Offices of the separately administered organs and programmes of the United Nations and the Ethics Office of the United Nations Secretariat. The United Nations Ethics Committee shall be chaired by the head of the Ethics Office of the United Nations Secretariat.

5.2 The United Nations Ethics Committee shall establish a unified set of standards and policies of the United Nations Secretariat and of the separately administered organs and programmes, and consult on certain important and particularly complex cases and issues having United Nations-wide implications raised by any Ethics Office or the Chairperson of the Ethics Committee.

5.3 Meetings of the United Nations Ethics Committee shall be convened by the Chairperson.

5.4 The United Nations Ethics Committee shall review the annual reports of the Ethics Offices of the United Nations Secretariat and the separately administered organs and programmes and make recommendations for the future, as may be appropriate. The executive heads of the separately administered organs and programmes shall include, in their annual reports to their respective Executive Boards, the recommendations made by the United Nations Ethics Committee that specifically relate to them.

Section 6

Entry into force

The present bulletin shall enter into force on 1 December 2007.

(*Signed*) **Ban** Ki-moon
Secretary-General

<< Back

New UN Ethics Guidelines Greatly Misleading

December 4, 2007

FOR IMMEDIATE RELEASE

Contact: Bea Edwards, International Director
Phone: 202.408.0034 ext 155
Email: beae@whistleblower.org

Contact: Shelley Walden, International Program Associate
Phone: 202.408.0034 ext 156
Email: beae@whistleblower.org

Contact: Dylan Blaylock, Communications Director
Phone: 202.408.0034 ext 137, 202.236.3733 (cell)
Email: dylanb@whistleblower.org

New UN Ethics Guidelines Greatly Misleading
Whistleblower Retaliation Protections Weakened, Up to 15 Agencies May Enact Lower Standards

(Washington, D.C.) – The codification of ethics standards and policies for various UN agencies detailed in the December 1st bulletin issued by UN Secretary General Ban Ki-moon complicates and confuses the issue, creating an entirely new level of bureaucratic dispute, delay, cost and inefficiency for those who report corruption in UN operations and suffer retaliation as a result, in the opinion of the Government Accountability Project (GAP).

The policy in question is the United Nations System-Wide Application of Ethics: Separately Administered Organs and Programmes. The United Nations announced the new measure by stating: "Employees working in the Funds and Programmes of the United Nations are now covered by the same system of ethical protections and programmes as their colleagues in the UN Secretariat." In fact, Ban Ki-moon's new bulletin accomplishes exactly the opposite by effectively exempting the Funds and Programmes from the jurisdiction of the UN Ethics Office.

"This bulletin replaces a single Ethics Office, structurally independent of management in the Funds and Programs and responsible for applying a uniform set of ethical standards, with proliferating ad hoc internal ethics offices, operating at the pleasure of the heads of these agencies," said Bea Edwards, GAP International Program Director.

In December 2005, then-UN Secretary General Kofi Annan issued a bulletin establishing an independent UN Ethics Office, with a staff responsible for receiving appeals from whistleblowers in need of relief from retaliation. As whistleblowers from UN Funds and Programs came forward, assuming they were protected by the 2005 bulletin, Ban Ki-moon allowed for 'separately administered agencies' to exempt themselves from the UN Ethics Office's jurisdiction. Effectively the new Secretary General allowed agencies to opt-out of the agreed-upon ethical guidelines. Whistleblowers from the United Nations Development Programme (UNDP) who had reported serious corruption and fraud in their agency were badly hurt, as this inaction left them in legal limbo for nearly a year. Although the UNDP Administrator reports directly to the Secretary General, Ban Ki-moon has behaved as if he had no authority over UNDP.

With this latest development, the Secretary General sets out a second policy explicitly restricting the established Ethics Office to cases originating in the Secretariat and the peacekeeping forces, and relegating cases from UN Funds and Programs to recently, or not-yet, established ad hoc ethics offices in

each agency. These new offices will hear retaliation cases according to yet-to-be-elaborated ethical standards, which will then be 'harmonized' by a UN Ethics Committee.

"This bulletin states that a committee will now negotiate definitions of ethics to be applied system-wide," said Edwards. "Such a dubious process could take years and does not bring justice to whistleblowers. Nor does it protect them from retaliation or address the issue of corruption."

The new bulletin is flawed by glaring omissions. First, it sets out no parameters for establishing the new ethics offices. To ensure objectivity, a credible ethics officer must have legal training in the field, be recruited by an objective search committee from outside the institution, and have a secure position not subject to dismissal or harassment. The offices must be adequately staffed with similarly secure and trained officers. Above all, ethics personnel must be insulated from internal pressure and retaliation themselves.

The already operational UN Ethics Office was set up in this manner, and could therefore evaluate whistleblower cases from the Funds and Programs with genuine impartiality. The 2005 policy protecting personnel from retaliation when reporting fraud and corruption also provides protection for witnesses, assurances of confidentiality, measures of interim relief, and modern burdens of proof. The new offices, to be set up in the next three to six weeks, will operate under no such obligations.

The new bulletin does allow whistleblowers from Funds and Programs who claim unfair treatment from the new internal ethics offices to subsequently appeal to the UN Ethics Office. But any measure that adds cost and delay to the investigation and hearing process seriously damages the position of the whistleblower, who, in many cases, is dismissed, demoted, marginalized and harassed without relief.

The number of UN "separately administered agencies" that will establish separate ethics offices is unclear at this point, but it could be as many as fifteen. Already the UNDP and World Food Program (WFP) have appointed ethics officers (without impartial search committees), and UNICEF and the United Nations Population Fund (UNFPA) have also moved in this direction. With at least two legal professionals and support staff and infrastructure, the minimal cost per new office would be US$300,000 per year. The UN system is poised to assume extra costs of about $4.5 million per year for the purpose of avoiding the application of meaningful ethical standards.

The understanding of Christopher Burnham, the Under Secretary for Management who wrote the 2005 bulletin with technical assistance from GAP, was that the bulletin applied across the UN system. Likewise, a panel of independent jurists evaluating the UN justice system in 2006 strongly recommended that the Ombudsman's offices be merged into a single system-wide jurisdiction. But when the UN Ethics Office designated a UNDP whistleblower as a victim of retaliation, UNDP Administrator Kemal Dervis declared that the Funds and Programs were not subject to the UN Ethics Office, effectively evading any future investigation.

"By allowing Dervis to retaliate with impunity, Ban Ki-moon is now promoting a Potemkin Village of costly ethics offices throughout the system without independence, credibility or standards," said Edwards.

A copy of the new UN bulletin can be found on GAP's Web site here:
http://www.whistleblower.org/doc/2007/BKM%20Bulletin.pdf

Government Accountability Project

The Government Accountability Project is the nation's leading whistleblower protection organization. Through litigating whistleblower cases, publicizing concerns and developing legal reforms, GAP's mission is to protect the public interest by promoting government and corporate accountability. Founded in 1977, GAP is a non-profit, non-partisan advocacy organization with offices in Washington, D.C. and Seattle, WA.

#####

Government Accountability Project • www.whistleblower.org

National Office
1612 K Street, NW Suite #1100
Washington, D.C. 20006
202.408.0034

West Coast Office
1511 Third Ave. Suite 321
Seattle, Washington 98101
206.292.2850

GOVERNO DE MACAU
SERVIÇOS DE FINANÇAS

Contribuição Industrial
營業稅
Declaração de início de actividade
開業申報書

M/1

Antes de preencher esta declaração, leia com atenção as instruções.
填表之前，請小心閱讀指示

1 **Nome** 姓名: LAM CHENG

N.º contribuinte 納稅人編號:

☐ Sem domicílio no Território 非以本地區爲居住
☒ Com domicílio no Território 以本地區爲居住

Morada 地址: Av. Cons. F. d'Almeida No.113-115, Edif. Holland Garden 22-Q
Telefone 電話: 593540 Caixa Postal 郵箱: Edifício: 大廈:

☒ Macau 澳門 ☐ Taipa 氹仔 ☐ Coloane 路環

2 **Dístico comercial do estabelecimento** 商號名稱:
International Finance and Trade Joint Co.

N.º reg. estabelecimento 商號註冊編號 (de cadastro): 54807

Morada 地址: Av. Do Ouv. Arriaga 35, 1-B
Telefone 電話: 566501 Caixa Postal 郵箱: 1695 Edifício: 大廈: Soc. Ind. Ing.

☒ Macau 澳門 ☐ Taipa 氹仔 ☐ Coloane 路環

4 **Designação das actividades ou objecto do contrato**
業務或合約所涉活動之名稱
Actividades principais 主要業務: Importacao e exportacao e Financiar (金融)

Actividades acessórias 附屬業務:

3 **Tipo de declaração**
申報種類

☒ Inscrição de novo contribuinte 新納稅人之登記
☒ Inscrição de novo estabelecimento 新商號之登記
a) ☐ Por início de actividade 開業
b) ☐ Por trespasse ou integração numa sociedade. 轉讓或併作一公司
Indique o anterior n.º de registo de estabelecimento (n.º de cadastro):
指出以前之商號註冊編號

15 **RESERVADO AOS SERVIÇOS** 本局留用

CLASSIFICAÇÃO 評定

Inicial 初步	Inicial 初步
Definitiva 確定	Definitiva 確定
Inicial 初步	Inicial 初步
Definitiva 確定	Definitiva 確定
Inicial 初步	Inicial 初步
Definitiva 確定	Definitiva 確定

INICIAL 初步 __/__/__
O Chefe da SCI 營業稅科科長

DEFINITIVA 確定 __/__/__
O Chefe da Rep. de Finanças 財稅處處長

5 **Data provável de início de actividade**
預料開業日期
30 / 4 / 1992
Dia 日 Mês 月 Ano 年

14 **Carimbo da Repartição de Finanças e data de recepção**
財稅處蓋章及接收日期

31. MAR 97
負責人

Deverá efectuar o seu pagamento ~~a partir~~
08. APR 97

NOTA IMPORTANTE: 注意:
A inscrição ou pagamento da Contribuição Industrial não autoriza, só por si, o exercício de qualquer actividade que, por lei, dependa, ou venha a depender, de autorização administrativa, licença industrial ou de outra natureza.

營業稅的登記或完納並非表示准許從事任何按照法例須依賴或將依賴有行政許可、工業准照或屬其他性質准照的活動。

Inserido — Classificação provisória

Inserido — Classificação definitiva

Permanent Subcommittee on Investigations
UNDP Report - FN 94

5

[redacted]

Wa Long United Trading Company (WL)
International Finance And Trade Joint Company (IFTC)
S.L.F.T.

Purpose

Straight review.

History and Nature of Business

Wa Long United Trading Company (WL) 華龍聯合貿易公司

WL was locally established by Mr. Chio Keng Chon (趙景春) in 1988 as a sole-proprietorship trading entity and he also set up WL's China office in Beijing in the same year. Presently, there are about ten staff working in WL's Beijing office.

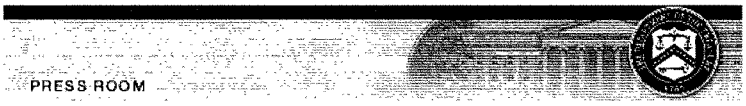
Mr. Chio has established close relationship with the senior officials in both the PRC and North Korea and this harmonious relationship facilitates WL's business between the two countries. As some western nations, especially the US, still exercise trading restriction against North Korea, the role of WL, which acts as an intermediary for importing wide range of products from China and other nations into North Korea, is important. The merchandises importing into North Korea vary from jute-yarn and wall tiles to high-end products like computers and marine equipment. WL usually receives orders from North Korea state owned enterprises and purchases goods from suppliers around the world. Payments made to suppliers are through WL's related company - IFTC by issuing L/C, C.O.D or T/T payments and occasionally by barter trade.

International Finance & Trade Joint Company (IFTC) 國際金融貿易合營公司

IFTC was established by Mr. Chio Keng Chon (趙景春) and Ms. Lam Cheng (林青) in 1992 whilst registered as a sole-proprietorship trading firm of Ms. Lam Cheng. The objective of setting up IFTC is to make viable the co-operative agreement with the Foreign Trade Bank (FTB) of North Korea for the ultimate purpose of facilitating trade. To facilitate trading with the PRC, IFTC has an operation base in Zhuhai, China which is managed by Ms. Lam and operated by six North Korean staff. In Macau, IFTC has two staff assisting with the daily operations.

Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
UNDP Report - FN 98



September 15, 2005
JS-2720

Treasury Designates Banco Delta Asia as Primary Money Laundering Concern under USA PATRIOT Act

The U.S. Department of the Treasury today designated Banco Delta Asia SARL as a "primary money laundering concern" under Section 311 of the USA PATRIOT Act because it represents an unacceptable risk of money laundering and other financial crimes.

"Banco Delta Asia has been a willing pawn for the North Korean government to engage in corrupt financial activities through Macau, a region that needs significant improvement in its money laundering controls," said Stuart Levey, the Treasury's Under Secretary for Terrorism and Financial Intelligence (TFI). "By invoking our USA PATRIOT Act authorities, we are working to protect U.S. financial institutions while warning the global community of the illicit financial threat posed by Banco Delta Asia."

In conjunction with this finding, Treasury's Financial Crimes Enforcement Network (FinCEN) issued a proposed rule that, if adopted as final, will prohibit U.S. financial institutions from directly or indirectly establishing, maintaining, administering or managing any correspondent account in the United States for or on behalf of Banco Delta Asia.

Banco Delta Asia SARL

Banco Delta Asia is located and licensed in the Macau Special Administrative Region, China. The bank operates eight branches in Macau, including a branch at a casino, and is served by a representative office in Japan. In addition, Banco Delta Asia maintains correspondent accounts in Europe, Asia, Australia, Canada, and the United States.

Deficiencies at Banco Delta Asia noted in the finding include, but are not limited to, the following:

- Banco Delta Asia has provided financial services for over 20 years to Democratic Peoples Republic of Korea (DPRK) government agencies and front companies. It continues to develop relationships with these account holders, which comprise a significant amount of Banco Delta Asia's business Evidence exists that some of these agencies and front companies are engaged in illicit activities
- Banco Delta Asia has tailored its services to the needs and demands of the DPRK with little oversight or control. The bank also handles the bulk of the DPRK's precious metal sales, and helps North Korean agents conduct surreptitious, multi-million dollar cash deposits and withdrawals.
- Banco Delta Asia's special relationship with the DPRK has specifically facilitated the criminal activities of North Korean government agencies and front companies. For example, sources show that senior officials in Banco Delta Asia are working with DPRK officials to accept large deposits of cash, including counterfeit U.S. currency, and agreeing to place that currency into circulation.
- One well-known North Korean front company that has been a client of Banco Delta Asia for over a decade has conducted numerous illegal activities, including distributing counterfeit currency and smuggling counterfeit tobacco products. In addition, the front company has also long

been suspected of being involved in international drug trafficking. Moreover, Banco Delta Asia facilitated several multi-million dollar wire transfers connected with alleged criminal activity on behalf of another North Korean front company.
- In addition to facilitating illicit activities of the DPRK, investigations reveal that Banco Delta Asia has serviced a multi-million dollar account on behalf of a known international drug trafficker.

Background on Section 311

Title III of the USA PATRIOT Act amends the anti-money laundering provisions of the Bank Secrecy Act (BSA) to promote the prevention, detection and prosecution of international money laundering and the financing of terrorism. Section 311 authorizes the Secretary of the Treasury – in consultation with the Departments of Justice and State and appropriate Federal financial regulators – to find that reasonable grounds exist for concluding that a foreign jurisdiction, institution, class of transactions or type of account is of "primary money laundering concern" and to require U.S. financial institutions to take certain "special measures" against those jurisdictions, institutions, accounts or transactions.

These special measures range from enhanced recordkeeping or reporting obligations to a requirement to terminate correspondent banking relationships with the designated entity. The measures are meant to provide Treasury with a range of options to bring additional pressure on institutions that pose specific money laundering threats.

The Treasury Department has previously identified the following financial institutions as being of "primary money laundering concern," pursuant to Section 311:

- Multibanka and VEF Bank of Latvia in April 2005;
- First Merchant Bank of the "Turkish Republic of Northern Cyprus" ("TRNC") and Infobank of Belarus in August 2004;
- Commercial Bank of Syria and its subsidiary Syrian Lebanese Commercial Bank in May 2004; and
- Myanmar Mayflower Bank and Asia Wealth Bank in November 2003.

The Bush Administration has also taken action, pursuant to Section 311, against the foreign jurisdictions of Burma, Nauru and the Ukraine. The finding of the Ukraine as being of "primary money laundering concern" was lifted after Ukrainian authorities took subsequent and aggressive steps to address the concerns and risks identified in the 311 action.

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 10th APR 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	DELEGATION GENERALE DE LA R.P.D. DE COREE DE PARIS
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANQUE COMMERCIALE POUR L'EUROPE DU NORD-EUROBANK, PARIS
Address of Receiving Bank	
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE OF THE DPRK FOR UNDP COVER BUILDING N HOUSES, REF.TTB62-077
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	
Paying Agent:	BDA/RE/OTT/2227/02
Rate	HK Equivalent
Cable / Postage	
Commission	HKD60
Total*	

10:13:35 2002/04/10 T/C: 013A INT'L F. & T. J. CO. [redacted]
[redacted] TRD 929 TRFDEP $300,000.00 USD
TRN [redacted] TRFNDN $300,000.00 USD

BDA/RE/OTT/2227/02

*Payment of the above remittance ~~XXXXXX~~
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐

I/We request that this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant

INTERNATIONAL FINANCE AND TRADE JOINT CO. MACAU 國際金融貿易合營公司

[redacted]

Prepared _____ Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

Permanent Subcommittee on Investigations
UNDP Report-FN 107

= Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 3rd MAY 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	DELEGATION GENERALE DE LA RPD DE COREE DE PARIS
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANQUE COMMERCIALE POUR L'EUROPE DU NORD-EUROBANK, PARIS,
Address of Receiving Bank	FRANCE
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE OF THE UNDP COVER BUILDING N HOUSES, REF.TTB62-087
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RE/OTT/2618/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD 200
Total*	

09:21:51 2002/05/03 T/C: 013A INT'L F. & T. J. CO. [redacted]
[redacted] TRD 929 / TREDEP $300,000.00 USD
TRW [redacted] TRFWDW $300,000.00 USD

BDA/RE/OTT/2618/02

Payment of the above remittance XXXXXXX
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account
no. [redacted]
☐

I/We hereby acknowledge that the transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant [redacted]

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 10th MAY 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	DELEGATION GENERALE DE LA RPD DE COREE DE PARIS
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANQUE COMMERCIALE POUR L'EUROPE DU NORD EUROBANK, PARIS.
Address of Receiving Bank	FRANCE
Message (if any)	B/O NATIONAL COORDINATION COMMITTEE FOR UNDP COVER BUILDING N HOUSES, REF.TTB62-090
Amount in words & figures (USD.220,000.00)	U.S. DOLLARS TWO HUNDRED TWENTY THOUSAND ONLY.
Name of Applicant:	~~INTERNATIONAL FINANCE AND TRADE~~ JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA / RE/OTT/2783/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD200-
Total*	

09:58 Bal: 2002/05/10 T/C: 013A INT'L F. & T. J. CO. [redacted]
[redacted] TRD 929 TRFDEP $220,000.00 USD
TRW [redacted] TRFWDW $220,000.00 USD

*Payment of the above remittance plus charge
BDA/RE/OTT/2783/02 XXXXXX
☐ By cash
☐ By cheque (subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐ _____

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

Signature(s) of Applicant(s): [redacted]

FINANCE AND TRADE JOINT CO. 國際金融 MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94)

BRANCH COPY

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLICATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 17th JUL 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	EMBASSY OF DPR OF KOREA IN SWEDEN
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW
Address of Receiving Bank	YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127 MSG: PAYMENT FOR PURCHASE OF BUILDING(UK)
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RE/OTT/4369/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	[redacted] HK$220/-
Total*	

09:42:24 2002/07/17 T/C: 013A I.F.T.C.
[redacted] TRD 929 TRFDEP $30[illegible],000.00 USD
[redacted] TRW [redacted] TRFWDR ~~$300,000.00 USD~~

BDA/RE/OTT/4369/02

Payment of the above remittance ~~XXXXXXX~~
☐ By cash
☐ By cheque (subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐ _____

I/We ~~hereby agree~~ that this transfer is made subject to the conditions printed on the reverse side herein.

Signature(s) of applicant(s)

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

[redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAO

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE002 (01/94)

BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 14th AUG 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	EMBASSY OF DPR OF KOREA IN SWEDEN
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW
Address of Receiving Bank	YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-139 MSG: PAYMENT FOR PURCHASE OF BUILDING (UK
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	~~INTERNATIONAL FINANCE AND TRADE~~ JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RZ6TT/LD27/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HKD 200
[redacted]	
Total*	

09:37:01 2002/08/14 T/C: 013A I.F.T.C.
[redacted] ~~TRD 929~~ ~~TRFDEP~~ ~~$300,000.00 USD~~
TRN [redacted] TRFWDW $300,000.00 USD

BDA/RZ6TT/LD27/02 XXXXXX

Please debit remittance plus charge
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account
no. [redacted]
☐ _____

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant [redacted]

INTERNATIONAL TRADE JOINT CO. 國際合貿 貿易合營公司 MACAU

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 21st AUG 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK USA
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	JPMORGAN CHASE BANK, NEW YORK
Address of Receiving Bank	

Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-144 MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)	FOR OFFICE USE ONLY	
		Draft / Ref. No.:	BDA/RT/OTT/5138/02
Amount in words & figures (USD.300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.		Paying Agent:	
		Rate	HK Equivalent
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.	Cable / Postage	
ID / Passport No.:		Commission	[redacted] HKD600
[redacted]	09:35:44 2002/08/21 T/C: 013A I.F.T.C. ~~TRD 727~~ ~~TRFDEP~~ ~~$300,000.00 USD~~ TRW [redacted] TRFWDW $300,000.00 USD		
Tel No.:	373848	Total*	

BDA/RT/OTT/5138/02 Remittance [redacted]

☐ By cash
☐ By cheque (subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse hereto.

Signature of Applicant: [redacted]

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
[redacted]

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

[redacted] = Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 30th AUG 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK, USA
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	JPMORGAN CHASE BANK, NEW YORK
Address of Receiving Bank	

Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF:TTB62-150 MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)	FOR OFFICE USE ONLY	
		Draft / Ref. No.:	BDA/HK/DTT/ 15352/02
Amount in words & figures (USD.300,000.00) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.		Paying Agent:	
		Rate	HK Equivalent
Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.		Cable / Postage	
ID / Passport No.:		Commission	HK200
09:58:00 2002/08/30 T/C: 013A I.F.T.C. [redacted] TRD 929 TRFDEP $300,000.00 USD TRW [redacted] TRFNDW $300,000.00 USD		[redacted]	
Tel No.: 373848		Total*	

BDA/HK/DTT/15352//02
Payment of the above remittance [redacted]
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant: [redacted]

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 3rd SEP 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	EMBASSY OF DPR OF KOREA IN LONDON
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	HSBC BANK PLC., NORTH FINCHLEY, 789 HIGH ROAD LONDON N 128 JX UK
Address of Receiving Bank	
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-152 MSG: PAYMENT FOR PURCHASE OF BUILDING
Amount in words & figures (USD.300,000.00)	U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
09:53:41 2002/09/03 T/C: 013A I.F.T.C.	
[redacted] TRD 929 TREDEP $300,000.00 USD	
TRW [redacted] TRFWDW $300,000.00 USD	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BDA/RE/OTT/5392/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HK0 200
[redacted]	
Total*	

BDA/RE/OTT/5392/02

Payment of the above remittance ~~XXXXXX~~
☐ By cash
☐ By cheque
10:53:41 BDA/RE/OTT/03 T/C: 013A
02090300[illegible] TRD 712 TRFDEP $300,000.00 USD
☐ Please debit my/our account no. [redacted] TRFWDW $300,000.00 USD
☐

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant [redacted]

MACAU CO. LIMITED

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU.

BDA/RE/OTT/5392/02

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94) BRANCH COPY

= Redacted by the Permanent Subcommittee on Investigations

APPLIAATION FOR PAYMENT ORDER

To: Banco Delta Asia S.A.R.L.
Macau

Date: 9th SEP 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

Beneficiary	PERMANENT MISSION OF THE DPR OF KOREA TO NEW YORK USA
Address: (if enquired)	
A/c No. of Beneficiary	[redacted]
Name of Receiving Bank	JPMORGAN CHASE BANK, NEW YORK
Address of Receiving Bank	
Message (if any)	B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-155 MSG: PAYMENT FOR PURCHASE OF BUILDING (CANADA)
Amount in words & figures (USD.400,000.00)	U.S. DOLLARS FOUR HUNDRED THOUSAND ONLY.
Name of Applicant:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
ID / Passport No.:	
Tel No.:	373848

FOR OFFICE USE ONLY	
Draft / Ref. No.:	BM/BC/OCT/5514/02
Paying Agent:	
Rate	HK Equivalent
Cable / Postage	
Commission	HK0200
[redacted]	
Total*	

[redacted] TRD 929 TREDEP $400,000.00 USD
[redacted] TRW [redacted] TRFWDW $400,000.00 USD

BDA[redacted] Remittance [redacted]
☐ By cash
☐ By cheque
(subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐

I/We hereby [illegible] this transfer is made subject to the conditions printed on the reverse side herein.

Signature of Applicant

[redacted]

For and on behalf of
BANCO DELTA ASIA S.A.R.L.
MACAU

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082(01/94)

BRANCH COPY

[redacted]

Transaction Details for TRN: 4039900233fc Region: US [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Instruction Date:	8/21/2002
Payment Date:	8/21/2002
Transaction Amount:	$299,980.00
Transaction Type:	CHC
Customer Swift ID:	
Debit Fin Entity:	01
Credit Fin Entity:	01
Credit Reference:	RE65138/02
Debit Reference:	[redacted]
Sender's ID:	
Bene Flag:	
Order Party:	INTERNATIONAL FINANCE AND TRADE JOINT CO.
Order Bank:	BANCO DELTA ASIA S.A.R.L. MACAU BRANCH MACAU MACAU
Debit Party:	[redacted] WACHOVIA NY INTL I.C.S. CLEARANCE ACCOUNT 180 MAIDEN LANE NEW YORK NY 10038
Details of Payment:	B O NATIONAL COORDINATING COMMITTEEFOR UNDP,REF.TTB62-144 MSG:PAYMENT FOR PURCHASE OF BUILDING (CANADA)
Credit Party:	[redacted] PERMANENT MISSION OF THE DPR OF KOR TO THE UN 820 SECOND AVENUE 13TH FL NEW YORK NY 10017

[redacted] Permanent Subcommittee on Investigations
UNDP Report-FN 107 [redacted]

[redacted]

Transaction Details for TRN: 4862900242fc Region: US

Instruction Date:	8/30/2002
Payment Date:	8/30/2002
Transaction Amount:	$299,980.00
Transaction Type:	CHC
Customer Swift ID:	
Debit Fin Entity:	01
Credit Fin Entity:	01
Credit Reference:	RE65352/02
Debit Reference:	[redacted]
Sender's ID:	
Bene Flag:	
Order Party:	INTERNATIONAL FINANCE N TRADE JOINT CO.
Order Bank:	BANCO DELTA ASIA S.A.R.L. MACAU BRANCH MACAU MACAU
Debit Party:	[redacted] WACHOVIA NY INTL I.C.S. CLEARANCE ACCOUNT 180 MAIDEN LANE NEW YORK NY 10038
Details of Payment:	B O NATIONAL COORDINATING COMMITTEEFOR UNDP, REF.TTB62-150 MSG:PAYMENTFOR PURCHASE OF BUILDING(CANADA)
Credit Party:	[redacted] PERMANENT MISSION OF THE DPR OF KOR TO THE UN 820 SECOND AVENUE 13TH FL NEW YORK NY 10017

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted]

[redacted]

Transaction Details for TRN: 4289100252fc Region: US

Instruction Date:	9/9/2002
Payment Date:	9/9/2002
Transaction Amount:	$399,980.00
Transaction Type:	CHC
Customer Swift ID:	
Debit Fin Entity:	01
Credit Fin Entity:	01
Credit Reference:	RE65514/02
Debit Reference:	[redacted]
Sender's ID:	
Bene Flag:	
Order Party:	INTERNATIONAL FINANCE N TRADE JOINT CO.
Order Bank:	BANCO DELTA ASIA S.A.R.L. MACAU BRANCH MACAU MACAU
Debit Party:	[redacted] WACHOVIA NY INTL I.C.S. CLEARANCE ACCOUNT 180 MAIDEN LANE NEW YORK NY 10038
Details of Payment:	B O NATIONAL COORDINATING COMMITTEEFOR UNDP, REF,TTB62-155 MSG:PAYMENTFOR PURCHASE OF BUILDING(CANADA)
Credit Party:	[redacted] PERMANENT MISSION OF THE DPR OF KOR TO THE UN 820 SECOND AVENUE 13TH FL NEW YORK NY 10017

[redacted] = Redacted by the Permanent Subcommittee on Investigations

[redacted]

Informal Briefing Note for PSI Investigators

Detailed Responses to 23 July USUN Letter

12 November 2007

Below are responses to the issues raised in the 23 July USUN letter to UNDP Administrator Kemal Dervis, first in summary form, and then in more detailed form.

Summary Responses

1. **UNDP had transactions with IFTJ** – UNDP records do not support this allegation. Moreover, neither does the documentation cited by the USUN in their letter of 23 July.

2. **UNDP is obligated to comply with the Export Control Laws of the United States** – UNDP has been advised by the UN Office of Legal Affairs that the UN does not have an obligation to obtain a license in view of the privileges and immunities accorded the Organization under the Convention on the Privileges and Immunities of the United Nations, to which the United States is a party since 29 April 1970.

3. **UNDP understated the amount of transfers to the DPRK Government** – UNDP did not understate the amount of transfers it made to the DPRK Government. Rather, USUN misinterpreted UNDP financial information.

4. **UNDP understated the amount of financial resources channeled through the UNDP NCC as the principal DPRK government executing agency for UNDP NEX projects.** UNDP did not understate the amount of resources channeled through the UNDP NCC. Contrary to the USUN allegations, the UN BOA report does not support the assertion that UNDP channeled programme resources through the UNDP NCC. Moreover, review of bank transactions from 2004-2006 refutes the assertion that UNDP issued cheques paid to "cash."

5. **UNDP made payments to Zang Lok Trading Company amounting to $3.2 million.** UNDP did not make payments to Zang Lok totaling $3.2 million for 2001-2004 for its own account. According to UNDP accounting records as previously stated, the payments made to Zang Lok, were made at the request of WIPO in 2002 and UNESCO in 2004 for their training activities with DPRK. UNDP records show that these payments totaled $52, 201.95.

6. **The UNDP NCC diverted at least US$2.8 million in UNDP assistance to purchase property abroad for DPRK.** This amount is not consistent with the amount of resources that the UNDP NCC directly received from UNDP DPRK.

7. **UNDP understated the amount of payments made on behalf of other UN Agencies** –UNDP's response dated June 28th was to USUN queries regarding certain

specific payments made to NCC for FAO. Details of these specific payments had been shared with UNDP by USUN at the June 15th technical meeting and UNDP's response was hence to these specific queries and not regarding all payments made by UNDP on behalf of FAO. Total payments made by UNDP on behalf of all other agencies including FAO were posted on UNDP's public website when the issue first arose in June.

8. **UNDP facilitated the conversion of Euros into counterfeit US Dollars for traveling DPRK officials and refused to share information from its files regarding counterfeit US dollars -** This allegation is not supported by a review of all DSA payments and related bank charges for the period 2004-2006.

9. **UNDP Procured Arms Control and Non-proliferation books for the DPRK without authorization -** The project was cited in the 1997-1999 Country Programme. However, Country Programmes are strategic documents which do not typically list projects. The 2005-2006 Country Programme does mention, as an intended outcome, a strengthened knowledge base "for the effective management of external assistance and critical external relations".

10. **UNDP retaliated against an individual contractor who drew attention to improprieties in the UNDP DPRK country programme** – The former contractor referred to in the US letter has not cooperated in good faith with UNDP's own efforts to review the allegations he has made. Indeed, UNDP currently has a protection against retaliation policy within its policy on Harassment and Abuse of Authority. UNDP is launching an independent external review of all matters relating to UNDP's activities in DPRK not covered by phase 2 of the UNBOA audit, including the allegations of the former contractor.

11. **UNDP denies the findings of the UN BOA preliminary phase audit** – UNDP and the USUN have different interpretations over the findings of the UN BOA. Through its Management Response, UNDP maintained its position and provided the relevant context. Specifically,

- The use of hard currency did not violate UNDP financial rules and regulations;
- The Korean nationals working at the UNDP Country Office were local personnel provided through the services arrangement with the DPRK Government and not UNDP staff members; and lastly,
- UN BOA indicated that the UNDP and the other UN agencies were able to visit their projects to ensure that the funds were used for the purposes intended.

Moreover, the preliminary review phase of the UN BOA was not meant to be a full fledged audit, but rather a preliminary review of the operations of UNDP, UNFPA, UNOPS and UNICEF in DPRK. The purpose of the preliminary review was to draft a detailed audit scope for the second phase of the audit to take place in DPRK.

Detailed Responses

1. UNDP had transactions with IFTJ.

On August 29th 2002 UNDP issued a payment of $229,997 to the Singapore-based Sindok Trading Pte Ltd. for the installation of computer equipment and provision of the appropriate training at the Osaka and Pyongyang Information Technology Training Center.

Contrary to the statement in the USUN letter, the payment was not made through the company called International Finance and Trade Joint Company or IFTJ. The e-mail dated August 16th 2002, referred to in the USUN letter makes no mention of the IFTJ. The e-mail message indicated that the payment should be made to the account of Sindok Trading in the United Overseas Bank in Singapore.

Also, the goods and services procured were consistent with the aim of the project that was fully funded by the Osaka University of Economics and Law, Japan. The supporting documentation for the payment included the invoice from the vendor, the certificate of final acceptance of goods, and the contract between the DPRK government (National Coordinating Committee for UNDP) and the Pyongyang Informatics Centre. In compliance with UNDP procedures for national execution, UNDP made the payment on the basis of an authorized request and supporting documents from the NCC for UNDP.

2. UNDP is obligated to comply with the Export Control Laws of the United States

On the issues regarding export control, UNDP has not been able to obtain a copy of the denial letter referred to by the US. In any case, UNDP has consulted with the UN Office of Legal Affairs (OLA) on the general issues regarding UNDP's requirement to obtain a license. OLA has confirmed in its recent memorandum of 2 August 2007 that the UN does not have an obligation to obtain a license in view of the privileges and immunities accorded the Organization under the Convention on the Privileges and Immunities of the United Nations, to which the United States is a party since 29 April 1970. OLA has further advised that the obligations to obtain a license rest with the private companies that actually export the concerned equipment. The United States Mission may wish to clarify further the issues related to export control with the United Nations, as UNDP is guided by OLA in its handling of these matters.

3. UNDP understated the amount of transfers to the DPRK Government

The Associate Administrator's letter of 28th of June 2007 included a response to a specific allegation that UNDP had transferred $15M in cash to the DPRK Government during the period 2001-2005. It was stated that during the period 2001-2005 an average of $2.5M per year ($12.6M in total) had been transferred by UNDP Headquarters to bank

accounts which were solely for payments by the UNDP DPRK Country Office. This section of the US letter contends that UNDP transferred to the DPRK cash amounts larger than the $2.5M per year and cites various expenditure figures and averages in support of their contention.

Please note that the $12.6M ($2.5M per year) specifically refers to funds transferred by UNDP HQ to bank accounts which were solely for payments by the UNDP DPRK Country Office. In contrast, total expenditure ($13.5M) for the DPRK programme ($10.2M) and operations ($3.3M) includes expenditure made not only from these bank accounts exclusively for payment by the UNDP DPRK Country Office, but also payments from bank accounts controlled by other offices/UNDP HQs/HQs of UN agencies executing UNDP's projects (i.e. UNOPS) on behalf of the UNDP DPRK Country Office, outside the country. Examples of payments made outside the country include project expenditure not directly paid by the UNDP DPRK Country Office and international staff payroll. For example, if a project is implemented by UNOPS, some project payments such as salaries of international project personnel will be made by headquarters of UNOPS. Since this is not paid out of bank accounts which were solely for payment by the UNDP DPRK Country Office, it is not part of $12.6M but is part of the total expenditure of UNDP DPRK programme. As a consequence, total expenditure logically is greater than actual funds transferred to the bank accounts which were solely for payment by the UNDP DPRK Country Office.

Furthermore, in analyzing the USUN's supporting data, it should be pointed out that UNDP's figure of $2.5M per year was in response to a specific time period requested by USUN (2001-2005). The average figures in the USUN letter of 23 July to challenge UNDP's utilize different time periods and do not use comparable data. The points below address these differences.

- Paragraph 3 of section 3 of the USUN letter compares the average amount of funds ($2.5M per year from 2001-2005,) transferred to the above-mentioned UNDP DPRK bank accounts, with the $13,225,385 of total UNDP programme expenditure and the $4,079,024 of total UNFPA programme expenditure for 2002-2006 (Board of Audit report Table 7 refers) totaling $17,304,409, which averages $3.5M per year. As stated above, the two averages will not match because programme expenditure includes payments made outside of the DPRK. In the USUN letter, dissimilar time periods and payment locations are compared in computing the average.

- The same paragraph also compares the $3.5M in average expenditures for 2002-2006, with the average annual payments of $4.7M, from 1997-2006. During that period, total UNDP payments amounted to $47M, and included: programme expenditure ($29M), support budget expenditure ($7M) and payments made at the request of other UN agencies (i.e.,$11m worth of payments not for UNDP's programme but that of the requesting agencies) for that period. Since the 1997-2006 period included the two years with the highest expenditure, i.e. 1997 and 1998 ($6.5M and $7.1M respectively) the inclusion skewed the average figure for that time period (*Source:*

UNDP's Note to the Executive Board 22 January 2007 re the DPRK country programme).

In sum, these three different averages cannot be used for comparison amongst themselves as they each include different bases and different time periods.

Paragraph 4 of section 3 of the USUN letter also cites UNDP internal records of expenditure data for 2004-2005 that challenges the veracity of UNDP official financial records. The Board of Audit included UNDP expenditure data for the period 2002-06 as part of the preliminary phase of the audit which did not raise any issues regarding the accuracy of the financial records. It is not possible to comment further since the source of the USUN data is not known.

USUN letter's paragraph 4 states that UNDP had 172 total projects from 2002-06 and cites the Board of Audit report (Table 8) as the source. Table 8 shows the number of projects that reported expenditure in each year of the period 2002-06. Table 8 is misrepresented and incorrectly added the years horizontally to reach a total of 172.

The confusion may arise from the fact that many projects are active over several years; and that over the course of five years, projects draw to a close while others begin, and some projects may have reported expenditure over a span of several years. A similar misinterpretation is made in table 9 for NEX and DEX projects. Please refer to Annex VII (i) of the Board of Audit report for details regarding project expenditure.

Moreover, Annex VII counts trust fund projects twice: until recently, the mingling of regular resources and trust fund financing required the creation of two accounting entities. When these adjustments are factored in, there were only 73 active projects for the period 2002-2006 rather than 172.

Paragraph 5 also states that UNDP's response of 28 June did not include UNDP payments made on behalf of other UN agencies and also refers to this in other sections of the USUN letter. This is an accurate statement. However, it should be noted that USUN did not request this information either in their 7th June letter or during the technical meeting held on 15th June. It should also be noted that this information has been on UNDP's public website since 11 June and reference was made to its presence there during a press conference of the same date. Please note that for the period 1999-2007, UNDP made payments in three different currencies (Korean Won, Euros and US$) at the request of other UN agencies in the approximate amount of USD equivalent 9.6M (based on average monthly rates). UNDP DPRK closed its US$ bank account in December 2002 after the Government issued a regulation restricting international financial transactions to Euros.

Paragraph 5 of the USUN letter also assumes that if a project is Nationally Executed (NEX) or UNDP Executed (DEX) that an amount of funds equal to the project expenditure would have to be transferred to the UNDP DPRK Country Office. As discussed above, this is not necessarily the case. For example, if an international project

manager is recruited for a UNDP executed project, the payment would be made by UNDP HQ as part of UNDP's international payroll in USD, and hence HQ would not transfer any funds for the payment of the international project manager to the DPRK CO bank account.

The level of payments to the UNDP NCC is consistent with the extent of UNDP's reliance on NEX. Unlike other UN agencies, UNDP is requested, by its Executive Board through its decision 89/20, to use, as a norm, NEX as the default executing arrangement in every programme country. As correctly cited, NEX arrangements involve either transfer or advance of funds to national counterparts or direct payments at the request of the respective counterparts based on agreed work plans. Advancing of funds while a common practice globally in other country offices in line with NEX guidelines, was not a common practice in DPRK and was only done for 3 out of 73 projects (amounting to $407,955 by the end of 2006), with the rest being made through direct payments at the request of the respective counterparts.

Table 9 shows UNDP's reliance on other UN agencies for programme implementation, with a cumulative 3:1 ratio of NEX projects to DEX projects. However, it should be pointed out that these NEX projects were implemented with strong support and involvement of the Country Office. For instance, direct payments were made for these projects by the country office itself with the exception of three projects where advances were made. The ratio of DEX/agency vs. NEX projects has increased significantly over time. In 2006 for example, while there were 13 NEX projects, there were 26 DEX and UN agency executed projects – a ratio of 1:2 NEX versus DEX and UN agency execution.

Even among the NEX projects, programme disbursements are done predominantly through Country Office support to NEX and through other UN agencies. This can be seen from Annex VII of the UNBOA report. In 2006, for example, out of the active 13 NEX projects, only 2 NEX projects received a NEX advance. In 2005, out of the 17 NEX projects, only one project received a NEX advance. From 2002-2004, none of the NEX projects received an advance. It was also not the practice in DPRK to transfer all programme resources through the UNDP NCC.

The document cited by USUN as a source and entitled *DPR Korea's EDC Programme Revision, National Execution, Project Implementation Services* dated 10 June 2006 was a presentation prepared by UNDP DPRK management and shared with the UNDP NCC. It was essentially a proposal to align NEX implementation in UNDP DPRK closer to practice in some programme countries. When UNDP HQ was informed of the proposal, HQ expressed its concerns to the UNDP Resident Representative that the full implementation of NEX might create difficulties. This was repeated to the RR by the Division Chief during his last visit to DPRK. At that time, the UN Country Team had yet to secure an agreement by government for a capacity assessment under the required Harmonized Cash Transfer mechanism. More importantly, the government did not respond at all to the proposal, and the proposal was *never* implemented.

As mentioned in UNDP's letter of 28 June 2007, the only direct transfers to the UNDP NCC amounted to €161,000 and $8,000 for 2001-2005. All other NEX advances were transferred directly to the relevant Government executing or implementing agencies and not the UNDP NCC.

4. UNDP understated the amount of financial resources channeled through the UNDP NCC as the principal DPRK government executing agency for UNDP NEX projects

As previously stated UNDP's HQ accounting records show that in the entire period 2001-2005 UNDP made payments totaling Euro 161,824 and US$8,040 to the NCC for UNDP.

At the technical meeting of June 15th, UNDP was provided with information which related specifically to payments made directly to the NCC for UNDP. Hence UNDP's response then identified those payments made directly to the NCC for UNDP. UNDP does make payments on behalf of Executing Agencies and upon their request. However, at the above-referenced technical meeting, this information was not requested. All payments by UNDP, on behalf of an Executing Agency, or for a UNDP project are done on the basis of an approved project budget for specific activities and relevant supporting documentation. The outcome of these activities is reflected in the activity reports.

While it may be the practice in programme countries to rely on advances to projects and to even channel UNDP programme resources through the main national counterpart, this was not the case in DPRK. As indicated in Annex VII of the UN BOA report payment were done predominantly using DEX-like arrangements (51% of total programme expenditure disbursed by UNDP DPRK CO; 46% disbursed by UN agencies) rather than through transfers or advances to through the UNDP NCC.

This statement is supported by a recent review of all payments for the period 2004-2006. The review identified certain generic vendors; for which a sample of 106 payments was identified; and for which cancelled cheques and bank transfer documents and supporting documents were examined. None of cheque payments were made out to "Cash". All were made out to individuals or institutions.

Take for example, a smaller sample of payments to local institutions:

- There were only three payments to the UNDP NCC amounting to Euro 73, 413.21. Consistent with the 28 June letter, all three payments to the UNDP NCC were from the Perez Guerrero Trust Fund, as authorized by the South-South TCDC Unit (Annex I on description of Fund attached).
- There were also three UNDP programme-related payments to Government agencies, based on the authorization of other UN agencies, for the holding of a training program and a workshop. From the bank documents, all payments were made directly to the agency concerned and not the UNDP-NCC.
- UNFPA, FAO, and UNESCO authorized a total of 4 payments to 3 government agencies – namely the Ministry of Fisheries, the NCC for UNESCO, and the Central

Bureau of Statistics -- that were not related to the UNDP programme. From the cheques and bank transfers, these payments were directly paid to the government institution and not the UNDP-NCC.

- The remaining payments to government were for salaries and utilities, including the regular maintenance of Country Office IT equipment. Again, these payments were not made out in the name of the UNDP-NCC.

Similarly, as regards to DSA payments, in the samples of cheques examined there was no instance of a cheque made out to Cash or the UNDP NCC. In the recent review of cancelled cheques, none were made out to "Cash" and all were backed up with receipts and other supporting documents.

As explained in the earlier sections, UNDP has not been able to establish evidence to support the allegation that UNDP issued cheques made out to cash, which the driver would then cash at the Foreign Trade Bank; nor for the allegation that UNDP's senior counterpart, Mr. Jong Yong Ryung, of the UNDP NCC would then collect cash payments ostensibly to distribute payments to projects. Furthermore:

- Current and former international UNDP DPRK staff members contacted (Country Director Abu Selim, DRR Vineet Bhatia, Operations Manager Paul Brewah, Procurement Officer Mulualem Zeleke, and Administrative Officer Samar Singha) do not corroborate what is alleged to be the "normal course of business".
- All international staff members agreed that the UNDP driver visited the Foreign Trade Bank as a matter of routine. Other than cashing cheques for international staff salaries, petty cash, and staff meal allowances, the driver also brought signed bank transfer forms and cheque/cash deposit forms, bank statements, credit and debit advices and bank stationery (i.e. cheque books).
- All staff said that it was not the practice for the UNDP NCC representative, Mr. Jong, to come to the UNDP office and collect the cash payments on behalf of the projects. UNDP staff who worked with him said that he would visit the UNDP Country Office only for programme discussions, or to meet or accompany visiting official or technical missions. After serving as UNDP's main counterpart for two decades, Mr. Jong retired in December 2005. According to the current management, Mr. Jong has not been seen or heard from since his retirement.

5. UNDP made payments to Zang Lok Trading Company amounting to $3.2 million.

UNDP did not make payments to Zang Lok totaling $3.2 million for 2001-2004. According to UNDP accounting records as previously stated, the payments made to Zang Lok, were made at the request of WIPO in 2002 and UNESCO in 2004. These totaled $52,201.95. UNDP's role in these transactions was simply to execute payments to Zang Lok, as it was the specific vendor requested by WIPO and UNESCO. There was a review of HQ accounting records for the years 1999 to present and including all payments made

by the UNDP DPRK CO and have only been able to identify payments of $52,201.95 to Zang Lok.

6. The UNDP NCC diverted at least US$2.8 million in UNDP assistance to purchase property abroad for DPRK.

As previously stated UNDP HQ accounting records show that in the entire period 2001-2005 UNDP made payments totaling Euro 161,824 and US$8,040 to the NCC for UNDP.

UNDP DPRK does not have a Memorandum of Understanding with the UNDP NCC to receive and to disburse funds. Other than the Standard Basic Assistance Agreement, the project document is the only other legal document that defines an implementation role for the UNDP NCC. In this regard, take a typical UNDP NEX project in DPRK as illustrative, i.e. *DRK/02/A02/8F/99 Capacity Building for Enhanced Information Technology Training by the Osaka and Pyongyang Training Center, Pyongyang*:

- The Osaka University of Economics and Law contributed $250,000 to the project;
- The section of Management Arrangements specified the UNDP NCC as the Executing Agency. The section also identified specific roles for the UNDP NCC, which would include:
    - Identification of the National Project Coordinator;
    - The responsibility to provide and facilitate logistical support for project implementation;
    - Provision of essential staff, technicians and other expertise needed to carry out the project;
    - Provision to UNDP, the names and curricula vitae of the professionals who qualify for overseas training;
- The management section also specifies the role of UNDP in the project:
    - Providing support services to the project, including monitoring and administrative backstopping, including the identification of the international consultant;
    - Coordinating the preparation of progress reports;
    - Overseeing implementation on behalf of the donor.

Out of the $250,000 contribution, $229,997 was paid out to a single vendor, the Singapore-based Sindok Trading Pte Ltd and not to the UNDP NCC, in 2002. While Government conducted the procurement process using its rules, an international UNV (with a background in engineering) sat as an observer when the Government evaluated the quotations and selected Sindok Trading Company from among three companies. Similar to other UNDP-supported NEX projects, the UNDP Country Office was then requested by the UNDP NCC as Executing Agency to pay Sindok Trading on their behalf.

Over the last five years, other than the Perez Guerrero Trust Fund projects and a few miscellaneous expenses, payments were channeled not through the NCC for UNDP, but through the relevant line agencies and individuals. For example, the NEX advances were

directly channeled to the relevant Ministries, i.e. the Ministry of Environment and Land Protection for the IT/EMC project and the Ministry of Chemical Industries for the Persistent Organic Pollutants Project, as part of the Montreal Protocol – and not to the UNDP NCC. Similarly, from the sample of cheques examined, we know that payments for DSA for Koreans on fellowship were paid to the travelers themselves, and not the UNDP NCC.

7. UNDP understated the amount of payments made on behalf of other UN Agencies

A list of total payments made by UNDP on behalf of all other agencies has been available from UNDP since March and has been posted on UNDP's public website since June. UNDP has no record of USUN ever asking for this information.

UNDP's letter dated June 28th was in response to USUN queries regarding certain specific payments made to NCC for FAO. Details of these specific payments had been shared with UNDP by USUN at the June 15th technical meeting and UNDP's response was therefore directed to these specific queries and not regarding all payments made by UNDP on behalf of FAO. As previously conveyed in UNDP's June 28th response, records show that no payment was made directly to the FAO NCC's bank account in 2001.

During the period 2001-2005, UNDP made payments to the DPRK on behalf of FAO totaling $1,455,576.46. In the same period the total payments made on behalf of UNESCO and UNEP was $132,553.51 and $547,845.70 respectively. The total amount of payments made on behalf of these three agencies for the period 2001-2005 amounts to $2,135,975.67 and is considerably lower than the $8.7M referred to in the USUN letter dated July 23rd.

8. UNDP facilitated the conversion of Euros into counterfeit US Dollars for traveling DPRK officials and refused to share information from its files regarding counterfeit US dollars.

As mentioned previously in the 28 June letter, UNDP takes allegations of possible counterfeiting seriously:

- UNDP does not know of any instances of possible counterfeit currency linked to its operations in North Korea. UNDP recently transferred to the US authorities $3,500 in cancelled counterfeit notes that were the property of an Egyptian consultant who sent the notes to UNDP to try to secure reimbursement by the issuing bank in Pyongyang as long ago as 1995.
- UNDP cannot authorize DSA payments in US dollars inside North Korea. Since December 2002, the DPRK Government has barred all delegations and international organizations in DPRK from transacting in US dollars in-country. Only Euro cheques are issued for DSA and made out to the participants.

UNDP also reviewed all DSA payments and bank statements made from 2004-2006. All the DSA payment vouchers included a bank charge of 0.5%, and have confirmed that the amounts in the vouchers correspond with the entries in the bank statement. No additional bank charges for this sample were collected by the Korea Foreign Trade Bank from UNDP's account for any further transactions. For the same period, all other payments to the Foreign Trade Bank were for cost of cheque books, charges on negotiable cheques encashed where it was not previously charged on the voucher, and charges for bank overdrafts.

9. UNDP Procured Arms Control and Non-proliferation books for the DPRK without authorization

The project was cited in the 1997-1999 Country Programme. However, Country Programmes are strategic documents which do not list projects. The 2005-2006 Country Programme does mention, as an intended outcome, a strengthened knowledge base "for the effective management of external assistance and critical external relations". When UN member states encouraged UNDP to assist the DPRK to engage progressively with the norms and standards of the global community, UNDP agreed; and the project entitled "Capacity Building in Arms Control and Disarmament" funded by Sweden with in-kind contributions from Germany and some administrative support was drafted and approved.

- The purchase of the publications was based on the authority as provided for by the project document. In this regard, purchase of publications was listed as one of the project components in addition to fellowships, study tours, and participation in regional workshops and conferences.
- Specifically, the project document stated that "Books, reports, journals and other library materials will be supplied to DPI/MFA both through a publication exchange as well as subscription of journals and purchase of books. These publications are intended as an input into the libraries of DPI/MFA".
- The books that were subsequently purchased were chosen in consultation with the Disarmament and Peace Institute and the Project Chief Technical Adviser (CTA) who is an international German disarmament expert. The CTA was recommended by the Swedish experts involved in the project. The Purchase Order was issued by UNDP Pyongyang on 12 August 2006.

10. UNDP retaliated against an individual contractor who drew attention to improprieties in the UNDP DPRK country programme

The former contractor referred to in the US letter has not cooperated in good faith with UNDP's own efforts to review the allegations he has made. Indeed, UNDP currently has a protection against retaliation policy within its policy on Harassment and Abuse of Authority. This policy provides formal and informal mechanisms for staff and non-staff personnel to address allegations of retaliation. Notwithstanding the former contractor's failure to cooperate in good faith with UNDP's own efforts to review the allegations he

has raised, UNDP has launched an Independent Investigative Review (IIR) of all matters relating to UNDP's activities in DPRK not covered by phase 2 of the UNBOA audit, including the allegations of the former contractor.

11. UNDP denies the findings of the UN BOA preliminary phase audit

UNDP and the USUN have different interpretations over the findings of the UN BOA. Through its Management Response, UNDP outlined its position and provided the relevant context. Specifically,

- The use of hard currency did not violate UNDP financial rules and regulations;
- The Korean nationals working at the UNDP Country Office were local personnel provided through the services arrangement with the DPRK Government and not UNDP staff members; and lastly,
- UN BOA indicated that the UNDP and the other UN agencies were able to visit their projects to ensure that the funds were used for the purposes intended.

Moreover, the preliminary review phase of the UN BOA was not meant to be a full fledged audit, but rather to conduct a preliminary review of the operations of UNDP, UNFPA, UNOPS and UNICEF in regards to DPRK. The purpose of the preliminary review was to draft a detailed audit scope for the second phase of the audit to take place in DPRK.

The BOA in its preliminary audit phase stated that they were unable to determine whether the cheques were made out in the name of the vendor or for cash and therefore unable to determine what actual cash payments may have been made to local suppliers or staff because no cheques were held in New York. The BOA also acknowledges in its report that the audit was limited to personnel and documents made available in New York and that no on-site validation of results was performed during the preliminary phase. Furthermore it acknowledged that they did not test the validity of payments to ultimate recipients as they did not have access to financial records outside the UN system.

As stated above, the BOA did not draw a conclusion as to whether cheques were made out to "cash" because the BOA did not request access to this documentation that might have helped them to draw a conclusion.

As stated in UNDP management response, all the documents that the UN BOA requested were provided. As also stated in UNDP's management response, the office's procedure was to issue bank transfers or cheques. The office required vendors to formally acknowledge receipt of cheques. Supporting documentation of this is retained by the DPRK Country Office and is available in Pyongyang. This includes a record of the payee and amount for all cheques issued by the office, formal acknowledgement of receipt of the cheque by the vendor and cheque stubs stamped by the bank as "paid".

Acknowledging the above, and according to the TORs received from the BOA the second phase of the audit will allow the BOA to, amongst other things trace the payments made

to suppliers and personnel using the United Nations records including all available supporting documentation retained by the UNDP DPRK Country Office in Pyongyang.

Annex 1

The Perez-Guerrero Trust Fund for Economic and Technical Cooperation among Developing Countries

The Perez-Guerrero Trust Fund for Economic and Technical Cooperation among Developing Countries (PGTF) was established by the United Nations in accordance with General Assembly resolution 38/201 of 20 December 1983, The PGTF is a fund established for the purpose of supporting activities in economic and technical cooperation among developing countries (ECDC/TCDC) of critical importance to developing countries members of the Group of 77, in order to achieve national or collective self-reliance, according to the priorities set by them. Its funds are channeled through the United Nations Development Programme, following the approval by the Group of 77. Projects utilizing the PGTF should be of such a nature that they lead to balanced and general benefits for the member countries of the Group of 77. These projects should be designed so as to have a maximum multiplier effect, and in the case of regional projects, serve as pilot projects for other regions. In this context, projects which are purely national in nature will not qualify for funding.

Any project, in order to be considered for PGTF assistance must necessarily have an ECDC or TCDC component, i.e. any activity which involves deliberate and voluntary sharing, pooling or exchange of economic or technical resources, knowledge, experience, skills and capabilities between three or more developing countries for their individual or mutual development. Before submitting project proposals to the PGTF, governmental and non-governmental organizations, subregional and regional institutions of developing countries should obtain approval of their respective governing bodies and countries involved in the project. Project proposals should be channelled through the host countries designated national focal points for ECDC/TCDC. Projects submitted are examined by a committee of six experts and if found appropriate are recommended for financing.

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

June 7, 2007

By Hand Delivery

Mr. Ad Melkert
Associate Administrator
United Nations Development Programme
One United Nations Plaza, Room 2118
New York, New York 10017

Dear Mr. Melkert:

Thank you for taking the time to meet with me today and for the meeting with Mr. Dervis yesterday. As promised we are providing specific information related to our concerns. Because of the detailed nature of our concerns, for your convenience I have outlined the points that we raised today in this letter.

As you know the United States is greatly concerned with the operations of UNDP in various country programs including in the DPRK.

The United States is concerned about UNDP transactions on its own behalf or on behalf of other UN organizations with two entities in particular. One is an entity known as Zang Lok Trading Co. (Zang Lok) and the other is International Finance and Trade Joint Co. (IFTJ). Both are based in Macau.

Zang Lok has ties to a North Korean entity that has been designated under United States laws (E.O. 13382) as the main North Korean financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.

As to IFTJ, we have learned that the DPRK between April and September 2002 directed sizeable transfers of UNDP funds through Banco Delta Asia (BDA) bank accounts controlled by IFTJ in Macau. UNDP made certain direct Electronic Funds Transfer (EFT) payments to the DPRK's National Coordinating Committee for UNDP (NCC-UNDP) in 2001-2002 (and at other times) which then instructed IFTJ to forward these funds onward to various DPRK embassies outside of DPRK in order to purchase buildings and houses. As you may know, the U.S. Treasury Department in September 2005, designated BDA as a primary money laundering concern in part because of its role

over a number of years in facilitating illicit financial transactions on behalf of DPRK entities.

- Because of our concern, please provide information on all transactions including, the total number of transactions, the nature of each such transaction (including any items procured) and the amounts of all such transactions UNDP engaged in on its own or on behalf of other UN organizations with these entities from 1998 until the present.
- Please describe how such fund transfers were deemed to be consistent with the UNDP DPRK country program. Please provide this information for particularly the DPRK country program and for any and all other country programs as well.
- In addition, please provide a copy of the Memorandum of Understanding (MOU) and or any other contract(s) that govern the terms of such transactions with IFTJ or Zang Lok.
- Finally, we request that UNDP cease doing business with IFTJ and Zang Lok.

The United States is concerned with UNDP's purchase of equipment that has "dual use" capability (legitimate civilian use and military and weapons proliferation use) for the DPRK government purportedly under the stewardship of the UNDP DPRK country program. For example it appears that on May 13, 2006 UNDP procured and delivered a sophisticated Global Positioning Equipment (GPS) system, a portable high-end mass spectrometer, and a large quantity and variety of high specification computer equipment. UNDP purportedly acquired such equipment for an "Agricultural Assistance Project for Landscaping" (the "Landscaping Project"). The UNDP DPRK country program for 2005-2008 as approved in 2004 contains no mention of such a Landscaping Project[1] nor that UNDP would acquire such "dual use" equipment for the DPRK.

- Because of our concern, please provide information on all transactions including, the total number of transactions, the nature of each such transaction (including a description of any items procured) and the amounts of all such transactions in which UNDP acquired "dual use" equipment on behalf of the DPRK from 1998 until the present.
- As you are aware such "dual use" equipment is subject to U.S. export control laws. Accordingly, please provide copies of any and all U.S. export licenses that UNDP obtained for these transactions.
- As you are aware, the United States assumes that all UN organizations that are headquartered in the U.S., including UNDP, to comply with U.S. export control laws and regulations.

As you are aware the United States is deeply concerned with the illegal counterfeiting of United States currency. On February 15, 2007 you advised me that

[1] The country program does state generally UNDP's intention to "improve agricultural production for food safety and environmental sustainability."

UNDP was in possession of suspected counterfeit U.S. dollar bank notes that were subsequently delivered to the United States Secret Service.

- As part of our inquiry into this matter, please provide copies of any and all UNDP documents including but not limited to safe content records, letters, emails, memorandums, payment vouchers, in either paper or electronic form that arise out of or relate in any way to UNDP's receipt, retention, disclosure, and turnover of such suspected counterfeit bank notes to the United States.
- In addition please provide copies of any and all UNDP internal documents, in either paper or electronic form that arise out of or relate in any way to <u>any</u> UNDP transaction or activity involving actual or suspected counterfeit U.S. currency.

As you are further aware UNDP frequently sponsored international travel for DPRK officials. In a variety of instances UNDP's locally hired employees (seconded from the DPRK government), appears to have "withdrawn" counterfeit U.S. currency from UNDP's account at the DPRK's Foreign Trade Bank (FTB) for such travel even after UNDP purportedly stopped using U.S. dollars in the DPRK country program in 2002. After 2002, UNDP did not maintain a U.S. dollar account in the FTB, but rather solely maintained euro and won accounts. In instances wherein UNDP delivered U.S. dollars to DPRK officials, the FTB charged UNDP two (2) payment transaction charges rather than the typical single payment-handling fee. The two (2) payment transaction charges appear to reflect a payment-handling fee <u>and</u> a currency conversion fee to convert UNDP euros to dollars at the FTB in Pyongyang.

- Please provide the total number and total amount of individual UNDP payments wherein the DPRK FTB charged UNDP two (2) separate payment transaction charges.
- Please describe the reason for FTB's charge and UNDP's payment of two (2) separate payment charges for all such transactions.
- Please describe why UNDP provided U.S. dollars to DPRK officials in Pyongyang for travel (or for any other reason) after 2002 when euro currency is negotiable worldwide.
- Please provide any and all information as to UNDP's knowledge or suspicion of the use of counterfeit U.S. dollars in such transactions.

The United States is concerned that UNDP procured for the DPRK 29 arms control negotiation and other foreign policy related books for the DPRK as recently as March of this year purportedly for a "Capacity Building in Arms Control and Disarmament Project" (the "Project"). The UNDP DPRK country program's from 2001 to the present do not contemplate nor authorize such a Project.[2]

[2] The 1997-1999 UNDP DPRK country program does refer to a program entitled "Disarmament and Peace Institute Project," but it does not reference such book purchases.

- Because of our concern, please provide a description of the rationale and justification for the Project and for the book purchases.
- In addition please provide an explanation of how such a Project and book purchases fall under the scope of the UNDP DPRK country program. Finally, please provide a detailed description of all Project activities and the total amount expended under the "terms" of the Project since 1998.

In our meeting with Kemal Dervis yesterday, we also briefly discussed the audit. Mr. Dervis suggested that although the Board of Auditors (BOA) Preliminary Review found that UNDP in the DPRK country program did pay in hard foreign currency, staffed its office with DPRK government seconded officials and that DPRK restricted site visits to country projects, that the UNDP Executive Board approved each of the three aforementioned actions and deviations from such rules.

As I indicated, the United States, an Executive Board member, is unaware of any time when such activities were presented and or approved by the Executive Board. Moreover, we have reviewed past Executive Board documents and cannot find any such references. Mr. Dervis indicated that UNDP would provide us with the Executive Board documents that inform of and authorize each of the three aforementioned activities. Therefore, we look forward to receiving such past Executive Board documents from UNDP.

Finally, I look forward to your response to my letter to you of May 14, 2007.

We appreciate all of your help and thank you for your attention to this matter.

Sincerely,

Mark D. Wallace
Ambassador

[redacted]行有限公司
Banco Delta Asia S.A.R.L.

入帳通知書
CREDIT ADVICE

DATE: 28-May-04

摘要 PARTICULARS	金額 AMOUNT
BEING AMOUNT CREDITED TO YOUR ACCOUNT WITH DETAILS AS FOLLOWS:	
OUR REF. NO.: BDA/RE/IR/1844/04.	
FROM: UBS AG LAUSANNE	USD 4,024.15
THEIR REF. NO. [redacted] LESS OUR CHGS	12.84
BY ORDER OF: UNDP	
MESSAGE : KR000014	
合計 TOTAL:	USD 4,011.31

TO ZANG LOK TRADING CO LTD
[redacted]

We Credited Your Account As Per Details Above.
For Banco Delta Asia S.A.R.L.
[redacted]
Authorized Signatures

O[redacted]1A(02/03)

```
RCVD *    RE/A/0512/-2/04. CONCERNING OUR SWIFT MT103 DATED
RCVD *    11-MAY-04 WITH TRN REF 3411131ZD3798471 FOR USD
RCVD *    4 024.15 VALUE 11-MAY-04
RCVD *    .
RCVD *    /BY ORDER OF/ UNDP    /IN FAVOUR OF/
RCVD *    ZANG LOK TRADING CO., LTD [redacted] AVENUE
RCVD *    [redacted] R/C-C MACAU  MO A/C: [redacted]
RCVD *    PLEASE READ CORRECT BENEFICIARY AS FOLLOWS:
RCVD *    ZANG LOK TRADING CO LTD
RCVD *    [redacted] AVENUE [redacted] R/C C MACAU  A/C:
RCVD *    [redacted]
RCVD *    ALL OTHER DETAILS REMAIN UNCHANGED. PLEASE
RCVD *    EXECUTE OUR PAYMENT AS PER THIS AMENDMENT,
RCVD *    AVOIDING ANY DUPLICATION. KINDLY CONFIRM YOUR
RCVD *    ACTION TO OUR REFERENCE MENTIONED BELOW.
RCVD *    .
RCVD *    BEST REGARDS.
RCVD *    UBS AG, SERVICE TELEBANKING .
RCVD *    CLAUDE ROSSAT , TELEPHONE +41-21-215-89 10 . OUR
RCVD *    REF.: UBSP1555-12MAY04
RCVD *
RCVD *
RCVD MAC: Authentication Code
RCVD *    11A9892C
RCVD CHK: CheckSum
RCVD *    2B642789D659
RCVD *
RCVD *SAC: SWIFT Authentication Correct
RCVD *COB:P: CB1 Primary Copy
RCVD *PCC:F: PC Connect : First Copy Of The Message
RCVD *
```

BDA/RE/[redacted]/IR/ 1844
Charges: USD 12.84
Net Amount: USD 4011.31
Corr. Banks: nil
Value Date: 28/5

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Wed May 12 15:55:48 200[illegible]

Permanent Subcommittee on Investigations
UNDP Report-FN 114

```
***** RECEIVED MESSAGE *****                    2002-04-13 09:48   page no : 5446
Status  ; MESSAGE DELIVERED
Station :   4          BEGINNING OF MESSAGE
_____________________________________________________________________________

RCVD *FIN/Session/OSN        :F01   2719     103193
RCVD *Own Address            :DABGMOMXAXXX   BANCO DELTA ASIA S.A.R.L.
RCVD *                                       MACAU
RCVD *Output Message Type    :103            SINGLE CUSTOMER CRDT TRANSFER
RCVD *Input Time             :0927
RCVD *MIR                    :020413FTBDKPPYAXXX0427002097
RCVD *Sent by                :FTBDKPPYAXXX   FOREIGN TRADE BANK OF THE D.P.R.
RCVD *                                       OF KOREA
RCVD *                                       PYONGYANG
RCVD *Output Date/Time       :020413/0926
RCVD *Priority               :Normal
RCVD *_____________________________________________________________________
RCVD *20 /SENDER'S REFERENCE
RCVD *     602EMG022
RCVD *23B/BANK OPERATION CODE
RCVD *     CRED
RCVD *32A/VAL DTE/CURR/INTERBNK SETTLD AMT
RCVD *     020416USD29450,
RCVD *                          2002-04-16
RCVD *                          US Dollar
RCVD *                                                              29450,00
RCVD *50K/ORDERING CUSTOMER
RCVD *     UNDP PYONGYANG DPR OF KOREA
RCVD *59 /BENEFICIARY CUSTOMER
RCVD *     [redacted]
RCVD *     ZANG LOK TRADING CO LTD
RCVD *70 /REMITTANCE INFORMATION
RCVD *     COMPUTER EQUIPMENT AND ACCESSORIES
RCVD *     (INVOICE ZU/001)
RCVD *71A/DETAILS OF CHARGES
RCVD *     OUR
RCVD *-
RCVD *_____________________________________________________________________
RCVD *MAC: Authentication Code
RCVD *     97EC69BF
RCVD *CHK: CheckSum
RCVD *     8F30B88C1D01
RCVD *_____________________________________________________________________
RCVD *SAC: SWIFT Authentication Correct
RCVD *COP:P: CBT Primary Copy
RCVD *_____________________________________________________________________
User requested copy from OMHQ
```

EB

BDA/RE/ OTT / 13/7/02
Charges: USD 200 —
Net Amount: USD 29450 —
Corr. Bank: nil
Value Date: 16/4

[redacted] = Redacted by the Permanent Subcommittee on Investigations

EXCERPT

Update on the most recent U.S. allegations

In late May 2007, the U.S. Mission to the U.N. raised new allegations concerning possible diversions of UNDP funding to the government of North Korea. UNDP has taken the U.S. concerns very seriously and has investigated them. In a cordial and constructive technical meeting on 15 June 2007 the respective representatives of UNDP and the U.S. Mission to the U.N. went through the United States' main concerns. During this meeting the U.S. Mission to the U.N. showed UNDP 7 'sample documents' illustrating certain transactions of concern to the United States Government. (UNDP transcribed these documents but was not allowed to keep or photocopy them.)

UNDP has scrutinized its electronic records at Headquarters and is taking further measures to review supporting, paper-based records that are in our files in DPRK. Based on its Headquarters review, however, UNDP has the following observations about the latest U.S. allegations:

1) The volume of transfers that UNDP is alleged to have made to a limited number of vendors (e.g. Zang Lok, IFTJ, NCC for UNDP) is significantly higher than the total resources UNDP had at its disposal for all purposes in DPRK during the periods in question.

2) There is not a single match between the payments in the sample documents shared with UNDP on 15 June 2007 and UNDP's own financial records (i.e. no payments of any amounts to the vendors in question on the dates listed; no match on the amounts to the vendors in question on any other dates in the entire period 1999 – 2007).

3) The 'sample documents' alleging payments in 2001 and 2002 show UNDP corporate system codes not in use by UNDP in those years.

In view of these findings UNDP believes it would be mutually beneficial to fully review all available documentation that the U.S. Mission to the U.N. believes substantiates the concerns expressed by the U.S. Government, and has urged the U.S. Mission to the U.N. to kindly provide UNDP with any documentation that would assist us in completing the review.

What follows below is intended to respond, in summary form, to the main concerns that have been raised by the U.S. Additional detail on many of the points is contained in the annexes to this summary.

- Allegation that UNDP transfer $15 million in cash to the DPRK Government in the period 2001to 2005: The allegation cannot be true as UNDP's banking records show that UNDP's country office did not have this magnitude of resources at its disposal. Headquarters only supplied UNDP's Country Office in DPRK with an average of $2.5 million per year in the period 2001 to 2005 ($12.6 million in total). This was the total amount of hard currency available for all purposes including personnel salaries, travel expenses, all project-related expenses, etc, including disbursements made for the UNDP programme, and for other UN Agencies.

- Payments to the National Coordinating Committee (NCC) for UNDP: The NCC is the designated counterpart agency for UNDP within the DPRK Government. The allegation that UNDP made payments of over $7 million during 2001 to 2005 is not supported by UNDP's internal records. The document shown to UNDP on 15 June 2007 alleging $1.86 million in payments to the NCC in 2002 is also not supported by UNDP's internal records. UNDP's records show that, in the entire period 2001-2005, it made payments totaling Euro 161,824 and US$8,040 to the NCC for UNDP. There is obviously a considerable difference between $7 million and Euro 161,284 and US$8,040. Furthermore, the bulk of UNDP's relatively modest payments to the NCC were used in support of a single program activity, namely DPRK-sponsored agriculture workshops for participants from Africa and Asia.

- Payments to Zang Lok Trading Company (Zang Lok): The UN system uses a wide-range of worldwide vendors. Allegations of large-scale payments (i.e. nearly $2.7 million) by UNDP to Zang Lok on behalf of itself or other UN agencies are not supported by UNDP's internal records. Threse records show that the only payments made to Zang Lok from 1999 to the present amount to $52,201.95 on behalf of WIPO in 2002 and UNESCO in 2004. UNDP's role in these transactions was simply to execute payments to Zang Lok, as the specific vendor requested by WIPO and UNESCO. UNDP did not have any transactions with Zang Lok on its own account.

- Payments to the International Finance and Trade Joint Co (IFTJ): Allegations of large-scale payments (i.e. nearly $2.7 million) to IFTJ by UNDP on behalf of itself or other UN agencies are not supported by UNDP's internal records. The specific allegation in the document shown to UNDP on 15 June 2007 that UNDP made at least $243,000 in payments to IFTJ in 2002 alone is also not supported by UNDP's internal records. IFTJ is not listed as a vendor in UNDP financial systems and UNDP has no record of any payments of any kind to IFTJ from 1999 to the present.

- Allegations that the NCC for UNDP transferred at least $2.8 million in UNDP funds abroad to purchase property: As suggested above, UNDP's internal records show UNDP payments to the NCC for the entire period 2001 – 2005 period total Euro 161,824 and US$8,040, and that the bulk of these funds were used in support of agricultural workshops in DPRK. UNDP is in no position to say whether or not the NCC for UNDP may have transferred money abroad to purchase property, but it is confident that UNDP's money was used for its intended purposes.

- Allegations that UNDP payments on behalf of other agencies, especially FAO, are much higher than has been previously disclosed: Allegations that UNDP payments on behalf of FAO have been in the order of $5m per year are not supported by UNDP's or FAO's internal records. The specific allegation in the document shown to UNDP on 15 June 2007 that UNDP made direct payments to the DPRK government (NCC for FAO) in 2001 totaling over $1.1 million are not supported by UNDP's internal records. UNDP's records show that no payment was made directly to the NCC for FAO in 2001.

- Allegations that UNDP recently purchased what the U.S. refers to as potential 'dual use' equipment: UNDP purchased Pentium 4 computers in 2006, as well as GPS equipment and a portable spectrometer (not 'mass' spectrometer, as has been alleged). These items were part of the disaster mitigation programme, are widely used internationally, and do not represent state-of-the-art technology. The items were purchased in Singapore and the Netherlands by UNOPS. UNDP is verifying that all relevant procurement procedures were followed. UNDP is also in the process of finalizing a complete inventory of all equipment purchased for the DPRK programme from 1998 to the present.

- Allegation that UNDP facilitated the conversion of Euros to Dollars for traveling DPRK officials: UNDP issued Euro-denominated checks for travel allowances (DSA), which could then be cashed at the DPRK Foreign Trade Bank. UNDP's investigation to date which covers a 'sample'6-month period has turned up no instance of "double charges" at the bank that might indicate 1) cashing the checks into Euros and 2) subsequently converting the Euros into dollars. UNDP cross-checked the 'sample' document shared with it against its own banking records. UNDP's records showed that no additional bank charges were collected for this transaction. UNDP is continuing this review beyond the 6-month period.

Finally, UNDP is aware of concerns that have been raised with the Secretary General by U.S. legislators about alleged retaliation against a UNDP worker who had raised questions about UNDP's former program in North Korea. UNDP takes this issue very seriously.

As UNDP has previously stated, the individual in question worked in a variety of short-term capacities for UNDP dating back to the 1990s, including service in North Korea in 2005 – 06. UNDP understands that in the same time period the individual also worked in other parts of the UN system as well as for his national government. His latest consultancy contract with UNDP, which was three months in duration, expired in March 2007.

The individual in question was interviewed by the external auditors as part of the recent preliminary audit of UNDP's operations in North Korea. He has also met with the UNDP Administrator and other senior officials to discuss his concerns about North Korea. He has been invited to submit substantiating information and documentation, but has so far not done so.

More recently the individual has claimed that he has been subject to retaliation because he raised concerns about UNDP's operations in North Korea. UNDP has looked into this claim and based on available information found it to be without basis. UNDP has invited the individual to submit all relevant information to the UNDP office charged with undertaking internal inquiries, but he has so far declined to do so. UNDP understands that this issue is now before the UN Ethics Office.

Annexes - US concerns about UNDP past operations in the Democratic People's Republic of Korea (DPRK)

The allegations in these annexes were made by the U.S. Government in late May and early June. Some have also been made elsewhere, including a June meeting of UNDP staff with Congressional staff and a June cable from the U.S. to UNDP Executive Board members, or have been reported in the press. (The allegations are in italics.)

ANNEX 1

Transactions with Zang Lok Trading Company, the International Finance and Trade Joint Company, and the UNDP National Coordinating Committee

Questions raised:

The United States is concerned about UNDP transactions on its own behalf or on behalf of other UN organizations with two entities in particular. One is an entity known as Zang Lok Trading Co. (Zang Lok) and the other is International Finance and Trade Joint Co. (IFTJ). Both are based in Macau.

Zang Lok has ties to a DPRK entity that has been designated under United States laws (E.O. 13382) as the main DPRK financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.

As to IFTJ, the U.S. Government alleges that the DPRK between April and September 2002 directed sizeable transfers of UNDP funds through Banco Delta Asia (BDA) bank accounts controlled by IFTJ in Macau. UNDP made certain direct Electronic Funds Transfer (EFT) payments to the DPRK's National Coordinating Committee for UNDP (NCC-UNDP) in 2001-2002 (and at other times) which then instructed IFTJ to forward these funds onward to various DPRK embassies outside of DPRK in order to purchase buildings and houses. The U.S. Treasury Department in September 2005, designated BDA as a primary money laundering concern in part because of its role over a number of years in facilitating illicit financial transactions on behalf of DPRK entities.

Transactions with Zang Lok

> *UNDP paid nearly $2.7 million to purchase "goods and services" from companies linked to a DPRK entity designated under US Treasury-administered E.O. 13382 as the main DPRK financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.*

The UN system uses a wide-range of worldwide vendors. As suggested during the working level meeting with the US on 15 June 2007, UNDP has scrutinized its electronic records at Headquarters. From 1999 to the present, UNDP did not have any transactions with the vendor Zang Lok on its own account. The only transactions were two payments made on behalf of other UN agencies: UNESCO and WIPO. These payments are for the programme of the respective agencies and NOT the UNDP programme. Zang Lok as the vendor was selected by the agencies directly and not by UNDP, UNDP merely carried out the request of

WIPO and UNESCO. The amount involved, $52,201.95, is radically different from the allegation that UNDP paid $2.7 million to purchase goods and services from a DPRK entity (presumably Zang Lok).

Table 1 - Transactions with Zang Lok 1999-2006 on behalf of other UN Agencies

No.	Year	Nature of Transaction	Amount
1	2002	• Payment to Zang Lok made on instruction of WIPO • Computer Equipment & Accessories (included 36 Celeron computers and 3 Pentium PIII computers, including switching hub)	$29,567.80
2	2004	• Payment to Zang Lok made on instruction of UNESCO • For purchase of computer equipment for training workshop on educational planning and information systems (included 23 Pentium IV computers)	$22,634.15
		Total	$52,201.95

The WIPO-authorized payments in 2002 and the UNESCO-authorized payment in 2004 were not linked with the UNDP Country Programme. These payments were consistent with UNDP's role as providing administrative support to non-resident UN agencies. In both instances, both UN agencies explicitly named Zang Lok as the vendor and requested UNDP to pay them on their behalf. As in such cases, these transactions would have gone through the procurement and contracting procedures of UNESCO and WIPO and hence would not have to go through UNDP's procurement and contracting procedures.

The International Finance and Trade Joint Company (IFTJ) and the UNDP National Coordinating Committee (NCC)

> *Between April and September 2002, the DPRK entity established specifically to receive and disburse UNDP funds transferred at least $2.8 million to DPRK missions in Europe and New York, in a bank account in Macau, for purchase of building in France, UK, and Canada.*

Some allegations link this $2.8 million transfer to a larger transfer of $8 million of payments on behalf of other agencies:

> *Between 2001 and 2005, UNDP transferred over $8 million of other UN agencies funds to the DPRK government*

One newspaper went a step further to allege that UNDP disbursed an average of $5 million per year on behalf of other agencies:

...UNDP has distributed far more in DPRK than is acknowledging. For example, they say, the Food and Agriculture Organization – all of whose payments were processed by UNDP – alone spent an average of $5 million a year in the country.

UNDP has no record of any payments to the vendor International Finance and Trade Joint Company. The IFTJ is not listed as a UNDP vendor from 1999 to the present. If the NCC for UNDP made payments through the IFTJ for the purchase of property abroad, UNDP was not aware of these transactions and there is no direct link to funds the NCC received from UNDP. As suggested during the 15 June working level meeting, UNDP also searched further for the vendor names for "IFTJ/Ctro Cml Hoi Vong, Macao" (based on additional information provided at the 15th of June meeting) and did not find any records of transactions under this name.

UNDP would be grateful to have copies of any documents the U.S. Government may have that suggest otherwise to facilitate UNDP's further review. As regards payments for other agencies, UNDP was responsible for $1 million per year on average, full details of which are available; however, as indicated above, there is no record of payment to IFTJ, on UNDP's own behalf, or on behalf of other agencies.

On the UNDP National Coordinating Committee

In 2001 and 2005 UNDP transferred US$7 million to a DPRK government entity called the National Coordinating Committee for UNDP (NCC)

As in all programme countries, UNDP works with a main government counterpart. In the case of DPRK, the UNDP NCC is its main counterpart. The UNDP NCC is part of the international organizations department of the Ministry of Foreign Affairs. The payments that have been made to the NCC for the period 2001-2005 are provided in Table 2. During the period from 2001 to 2005, according to UNDP HQ records, UNDP transactions with the NCC amounted to Euro 161,284 and US$8,040 – amounts which are radically different from the $7 million alleged for 2001 and 2005 alone.

Total transactions from 1999 to the present for NCC for UNDP were Euro 243,010 and US$ 80,903 and DPRK Won 50,807.

On the alleged payments by NCC of $2.8 million to missions abroad UNDP is in no position to say whether or not the NCC may have transferred money abroad to purchase property, but UNDP is confident that its money was used for its intended purposes.

Ninety percent (90%) of the transaction value recorded by UNDP with the NCC for UNDP refer to payments made by UNDP as the trust fund manager of Economic and Technical Cooperation among Developing Countries G77 Perez Guerrero Trust Fund (PGTF). Project proposals are proposed by member states of the G-77, appraised and approved by a G-77 technical committee. The activities sponsored under these projects were agricultural training in DPRK for Africa and Asian LDCs. The outcome of these activities is reported back to the G-77 Ministerial Meeting. The general objectives of the PGTF are consistent with the objectives of the UNDP country Programmes 2001-2004 and 2005-2006.

The remaining payments relate to the participation of NCC staff on a study tour, a subcontract for forestry training, fuel costs for emergency work on damaged tree nurseries, and support to a UN mission from Geneva.

Transactions with a Macau-based entity

In addition to the above allegations that UNDP transacted business via Macau (IFTJ and Zang Lok), the suggestion has also been made that

In 2001-2002 UNDP transferred at least $400,000 to DPRK through a Macau-based entity

From 2000 to 2002, UNDP transferred funds to its own bank accounts at the Foreign Trade Bank in Pyongyang through a Macau-based entity, which was the correspondent bank for the transfer. The role of a correspondent bank is to serve as an intermediary when the sender's bank and the beneficiary's bank do not have an established bi-lateral relationship. The choice of the correspondent bank in this transaction was made by the sender's bank and was made in accordance with the global standard banking practice, hence UNDP did not choose the correspondent bank for these transfers.

Table 2 – Summary of UNDP Payments to the UNDP NCC 2001-2005

	Euros		Total Euros	Dollars		Total Dollars
	2001-2003	2004-2005		2001-2003	2004-2005	
UNDP Programme						
NCC for UNDP	38,605	118,660	**157,265**	8,040	-	**8,040**
Sub-Total UNDP Programme (1)	**38,605**	**118,660**	**157,265**	**8,040**	-	**8,040**
Agencies						
NCC for UNDP (for UNOPS for a UNDP Project)	3,690	869	**4,558**	-	-	-
Sub-Total Agencies (2)	**3,690**	**869**	**4,558**	-	-	-
GRAND TOTAL (1+2)	**42,295**	**119,529**	**161,824**	**8,040**	-	**8,040**

(1) These are all payments by UNDP for a UNDP project on the basis of an approved project budget for specific activities and relevant supporting documentation. The outcome of these activities is reflected in the activity reports.

Summary of Projects from which payments were made to NCC 2001-2005:

Perez Guerrero Trust Fund projects

Project Number **Project Title**

-- DRK0312 - Training of Irrigation Designers for Undertaking the Work of Developing of the Water Resources in Developing Countries (EUR 31,500.00)
-- INT00K05 - Cooperation for Development & Application of Biological Farming Method among Developing Countries (USD 4,040.00)
-- INT00K04 - Training Irrigation and Drainage Designers for Undertaking Development of Water Resources in Developing Countries in Asia (USD 4,000.00)
-- INT02K01 - Training of Maize Breeding for Effective use of Maize Germplast in Africa (EUR 7,105.00)
-- 00012272 - Support to UNDP/TCDC Activities (EUR 3,684.29)
-- 00012276 - Irrigation Designers Training (EUR 3,216.00)
-- 00034007 - Cooperation for Flowers and Vegetable Technology (EUR 31,929.84)
-- 00040947 - Training of Groundnuts Breeding Experts for the Effective use of Groundnut Genetic Resources in Developing Countries (EUR 30,672.68)
-- 00041074 - Training of Researchers for Production Process and Inspection Methods of Seed in Developing Countries (EUR 34,325.78)

Payments made for other projects (other than Perez Guerrero TF)

Project Number **Project Title**

-- DRK99001 - Agricultural Recovery and Environmental Protection Support Project (EUR 3,689.64)
-- 00012259 - AREP Caritas Forestry (EUR 2,748.00)
-- 00012260 - Disarmament Initiative (EUR 12,083.13)

Other payments

-- 00010098 - UN Office in Geneva (EUR 1,016.16)

ANNEX 2

Dual-Use Equipment

On the point regarding what is referred to as potential "dual use" equipment, UNDP purchased Pentium 4 computers in 2006, as well as GPS equipment and a portable (not mass) spectrometer.

Questions raised:

The United States is concerned with UNDP's purchase of equipment that has "dual use" capacity (legitimate civilian use and military and weapons proliferation use) for the DPRK government purportedly under the stewardship of the UNDP DPRK country program. For example it appears that on May 13, 2006 UNDP procured and delivered a sophisticated Global Positioning Equipment (GPS) system, a portable high-end mass spectrometer, and a large quantity and variety of high specification computer equipment. UNDP purportedly acquired such equipment for an "Agricultural Assistance Project for Landscaping" (the "Landscaping Project"). The UNDP DPRK country program for 2005-2008 as approved in 2004 contains no mention of such a Landscaping Project nor that UNDP would acquire such "dual use" equipment for the DPRK.

The equipment described was procured under the UNOPS-executed Enhanced National Capacity for Disaster Mitigation and Preparedness through GIS/RS Phase II, and such equipment is standard for projects that strengthen a country's capacity to respond to natural disasters.

Under the 2001-04 and the 2005-06 Country Programmes, the project was conceived as a response to the floods and droughts that hit the country in the 1990s and was part of the overall Agricultural Recovery Programme (AREP) where major donors, including the United States, supported and attended its roundtables in Geneva in the 1990s. For this particular project, the United Kingdom was a major co-sponsor of the first phase of the programme, providing $250,000. The Project was formulated to support the establishment of DPRK capacity in Geographical Information Systems (GIS) and Remote Sensing (RS). Using GIS/RS, the
project was designed to have application for land use classification and planning, natural disaster monitoring, and crop yield estimation. Equipment deemed essential to achieve the project objectives – the portable spectrometer, the GPS system and computers for data analysis at field level - was purchased under the project based on the recommendations of two technical missions by British and Australian consultants in 2003 and 2005; and confirmed by a technical review mission in 2006. The technology is not high-end or sophisticated. For instance, the "high-spec" computers purchased in 2006 were Pentium IVs.

List of all dual use equipment

UNDP is still gathering information on equipment from 1998 to 2002 some of which predates its file retention policy. As most of the procurement was done by UNOPS for the period 1998-2002, UNDP is working with UNOPS to complete the inventories.

On the need for export licenses under US law

The purchase order for the GPS and the spectrometer was issued by UNOPS Bangkok and signed by the Director of UNOPS Bangkok to the vendor LINECO BV, ARNHEM, NETHERLANDS. Similarly, the second PO for the computers (Pentium IV) and printers were issued by UNOPS Bangkok, Thailand and signed by Director of UNOPS Bangkok to the vendor THAKRAL BROTHERS LTD, SINGAPORE. We are ascertaining with the Executing Agency, UNOPS, whether the vendors were required to obtain export permits for these items.

ANNEX 3

Conversion of Euro DSA and the delivery of US dollars

Questions raised:

UNDP frequently sponsored international travel for DPRK officials. In a variety of instances UNDP's locally hired employees (seconded from the DPRK government), appear to have "withdrawn" counterfeit U.S. currency from UNDP's account at the DPRK's Foreign Trade Bank (FTB) for such travel even after UNDP purportedly stopped using U.S. dollars in the DPRK country program in 2002. After 2002, UNDP did not maintain a U.S. dollar account in the FTB, but rather solely maintained euro and won accounts. In instances wherein UNDP delivered U.S. dollars to DPRK officials, the FTB charged UNDP two (2) payment transaction charges rather than the typical single payment-handling fee. The two (2) payment transaction charges appear to reflect a payment-handling fee and a currency conversion fee to convert UNDP euros to dollars at the FTB in Pyongyang.

The U.S. Government also requests that UNDP provide any and all information as to UNDP's knowledge or suspicion of the use of counterfeit U.S. dollars in such transactions.

UNDP cannot authorize DSA payments in US dollars inside DPRK. Since December 2002, the DPRK Government has barred all delegations and international organizations in DPRK from transacting in US dollars in-country. Only Euro cheques are issued for DSA and made out to the participants.

To look into the above possibility, the UNDP Country office team made a review of all DSA payments made over a sample of a 6-month period and of bank statements relating to this sample. All the DSA payment vouchers included a bank charge of 0.5%. UNDP has confirmed in this sample that the amounts in the vouchers correspond with the entries in the bank statement. No additional bank charges for this sample were collected by the FTB from UNDP's account for any further transactions i.e. UNDP has not found any instances in its 'sample' review of the "double charge" that might indicate Euros were converted to Dollars.

UNDP is continuing this detailed review for the remaining period. In any case, if there is documentation that evidences double charges, UNDP would be grateful if the U.S. Government would provide it, as this would facilitate its review. Incidentally, during the technical meeting with the U.S. Mission to the U.N., UNDP was able to trace in its system the sample document shared with UNDP (voucher 4047) on this point. Based on UNDP's HQ records, it showed that neither the principal nor the bank charge has been disbursed by UNDP.

UNDP takes allegations of possible counterfeiting very seriously. It knows of no instance of possible counterfeit currency linked to its operations in DPRK. UNDP recently transferred to the US authorities $3,500 in cancelled counterfeit notes that were the property of an Egyptian consultant who sent the notes to UNDP to try to secure reimbursement by the issuing bank in Pyongyang as long ago as 1995.

ANNEX 4

The books purchased under the Arms Control project

UNDP notes the concern over publications purchased under one of our projects.

> *The United States is concerned that UNDP procured for the DPRK 29 arms control negotiation and other foreign policy related books for the DPRK as recently as March of this year purportedly for a "Capacity Building in Arms Control and Disarmament Project" (the "Project"). The UNDP DPRK country program's from 2001 to the present do not contemplate nor authorize such a Project.*

This project is specifically mentioned in the Country Programme for the period 1997-99. The Country Programme is a strategic document which does not list discrete projects. UN member states previously encouraged UNDP to assist the country engage progressively with the norms and standards of the global community, including via the project entitled "Capacity Building in Arms Control and Disarmament" funded by Sweden with in-kind contributions from Germany and some administrative support from UNDP.

From 1998 to 2006, this initiative has spent a total of $483,200 (USD equivalent). The project has since been closed.

The project aimed at exposing DPRK officials to international practices, standards and conventions on arms control and disarmament. The current phase started in 2005. The CTA was a German international arms control expert, the training institutions involved were the Stockholm International Institute Peace Research Institute (SIPRI), Bonn International Center for Conversion (BICC) and the UN Institute for Disarmament Research. Operationally the project involved fellowships, study tours, and participation in meetings.

The purchase of these publications was part of the exposure process. While a portion of the book titles referred to were selected by the Chief Technical Adviser, others were purchased at the request of the DPRK. These titles are widely available. The books were purchased as part of the Disarmament and Arms Control project on 8 December 2006, before UNDP closed any projects with the suspension of the Programme. These books arrived in Pyongyang 13 March 2007 and were delivered to the DPRK authorities on 2 May.

ANNEX 5

The findings of the UN Board of Audit

> *Although the Board of Auditors (BOA) Preliminary Review found that UNDP in DPRK country program did pay in hard foreign currency, staffed its office with DPRK government seconded officials and that DPRK restricted site visits to country projects, that the UNDP Executive Boards approved of the three aforementioned actions and deviations from such rules. However, the United States, an Executive Board member, is unaware of any time when such activities were presented and or approval by the Executive Board.*

After the UN Board of Auditors released a preliminary report on 31 May 2007, through its management response, UNDP addressed the concerns of the UN Board of Auditors on local personnel, local payments, and project visits. As the Executive Board was informed in 2001, UNDP had "staff" that did not have UNDP contracts owing to the unique circumstances of the country, in particular that "[a]ll national staff (both at the general service and professional levels) are seconded from the Government. UNDP reimburses the Government for their salaries. Staff do not have UNDP contracts. Therefore, there are no UNDP staff performance review, and there is no salary component related to performance. UNDP has few options in its staff selection. (This system is the same for all United Nations agencies in the Democratic People's Republic of Korea.)." This report was noted by the Executive Board in its document E/2001/35, para 68. As a consequence, the UN staff rules do not apply as the local personnel were not UNDP staff members. As regards to local payments made in foreign currency, UNDP pointed out that the Standard Basic Assistance Agreement refers to assessed programme costs and other items payable in local currency by the Government of DPRK to UNDP. The SBAA does not govern local or foreign currency payments made by UNDP; and that UNDP's own Financial Regulations and Rules do not contain a stipulation on the utilization of currencies.

Through field visits and other monitoring activities, UNDP was able to confirm that the funds were used for purposes intended. Most importantly, the audit report did not point to evidence of diversion of funds. As a consequence, the UN BOA report does not support the allegations that

> *Between 2001 and 2005, UNDP transferred about $15 million in cash to the DPRK government. These monies included funds under UNDP control and funds from other UN agencies.*

In addition to the BOA preliminary audit, UNDP treasury records do not support allegations of transfers of cash, let along transfers of such a magnitude. The $15 million that UNDP allegedly gave the DPRK Government in cash in the period 2001-05 is considerably higher than the $12.6 million (US dollar equivalent) that UNDP HQ remitted UNDP DPRK CO from 2001-2005, to replenish its bank accounts.

ANNEX 6

Retaliation against a staff member

With regard to the allegation that

> *UNDP retaliated against a staff member who expressed concerns over UNDP operations in DPRK, and threatened several others.*

UNDP has not retaliated against or threatened any staff members. A former consultant who served for UNDP, including in DPRK, has raised concerns over some aspects of UNDP's operations there. These concerns have been reviewed, including by UNDP senior management. The individual met with the Administrator personally, without prejudice earlier this year. The individual was subsequently invited to submit all his information on the operations in DPRK by the Office of Audit and Performance Review but he has declined to do so. The individual was interviewed by the UN Board of Auditors as part of the recent external audit of UNDP's operations in DPRK. The individual does not currently work for UNDP, having left the organization in March 2007, upon the expiration of his most recent short-term contract.

ANNEX 7

Counterfeit Currency

Question raised:

> *The United States is deeply concerned with the illegal counterfeiting of United States currency. On February 15, UNDP advised the U.S. Givernment that UNDP was in possession of suspected counterfeit U.S. dollar bank notes that were subsequently delivered to the United States Secret Service.*

Concerning the 35 suspected notes in DPRK, the Office of Audit and Performance Review (OAPR) has undertaken an internal review. The following has been established:

- Based on the evidence, there is no reason to doubt the origin or circumstances under which the counterfeit currency came into the possession of UNDP-DPRK country office i.e. it came from Mr. El-Tanbouli
- The counterfeit currency did not affect the normal operations of the CO
- No further incident came to light; and
- No UNDP staff member was directly or indirectly implicated in wrong doing or misconduct with respect to the counterfeit currency.

UNDP had undertaken a world-wide check of all UNDP safes. No issue of concern of recent date has emerged. For the record one case emerged relating to one $100 note which did not belong to UNDP but a staff member in Syria, dating from August 2006. Meanwhile the Resident Representative has notified the Embassy of the United States in Damascus and arranged that the banknote was delivered to the US Embassy with a receipt.

A further two cases have been reviewed dating back to 1992 (Afghanistan, including reference to reporting to US authorities) and 1994 (Cambodia) respectively and met with considerable constraints in obtaining all the information as the relevant documentation may not have been kept due to the established seven years' rule for document retention, as well as the closing down of the office in Kabul during a number of years in the 1990s.

1) Afghanistan (1992) - 65 notes

- UNDP has established through recollections of a staff member who worked in the UNDP Office in Kabul in 1991/1992 that a Burmese UN Volunteer took money out (65 x $100) from his personal account in the Da Afghanistan Bank on his way home on leave. As per the established procedure at that time all bank notes were recorded in the bank's register. It is understood that the UNV tried to use some of his money in Bangkok (during a stopover), however they were found to be counterfeit and he was arrested in Bangkok by the Thai authorities. Through the intervention of the UN the UNV was released.
- It seems that FBI agents in Bangkok got hold of the currency and sent it to Washington DC where the bills were re-verified and stamped 'counterfeit'. Washington then handed over the bills to the then UNDP Treasurer and sent them back to Kabul with instructions to take them to the Da Afghanistan Bank to replace them for genuine notes.
- Upon receipt in Kabul the notes were verified through the serial numbers and the notes reimbursed by the Bank with supposed genuine notes.
- It appears that the stamped 'counterfeit' notes were taken back to the UNDP office for safekeeping as the Bank appeared not to want to keep them. When the office evacuated from Kabul to Islamabad in August 1992 there was an instruction by UNDP HQ to leave the counterfeit dollars in the safe.

2) Cambodia (1994) - 8 notes

- A note dated 3 November 1994 signed by six staff witnessing the nullification of eight $100 suspected counterfeit bills received from the UNDP Office in Cambodia has been retained in the safe in UNDP Treasury Division together with the nullified counterfeit notes.
- OAPR has undertaken an extensive review of the situation (interviewing 34 individuals) and found that none of the staff members including the signatories to the above note and those stationed in Cambodia in 1994 recall any circumstances concerning the suspected counterfeit currency and how and from where the bills came into possession of the Treasury Division at headquarters. OAPR also reviewed correspondence files that were available and although there were reservations as to the completeness of the files no reference was found in the files as to any circumstances relating to counterfeit currency.

In addition in coordination with the United Nations Secretariat, UNDP is reviewing and clarifying procedures when confronted with possible invalid currency of any country. This is important as there is a general lack of clarity on how to handle this type of exceptional issue.

United Nations A/62/272*

General Assembly

Distr.: General
5 October 2007

Original: English

Sixty-second session
Items 128 and 138 of the provisional agenda**

Review of the efficiency of the administrative and financial functioning of the United Nations

Report on the activities of the Office of Internal Oversight Services

Report of the Office of Internal Oversight Services on the activities of the Procurement Task Force for the 18-month period ended 30 June 2007

Summary

The Procurement Task Force was established in January 2006 within the Office of Internal Oversight Services to address fraud and corruption in the procurement function in the United Nations, both at Headquarters and in the various peacekeeping missions. During the 18-month period ending 30 June 2007, the Task Force completed 63 investigations and issued 22 reports. The Task Force has identified and reported on more than 10 significant fraud and corruption schemes in cases with an aggregate contract value in excess of approximately $610 million, which resulted in an approximate misappropriation of resources in excess of $25 million.[1] This figure does not include the intangible cost to the Organization for the compromise of the integrity to the contract selection and execution processes, which might be considered legal damages in courts of law in certain jurisdictions.

At the initial stage, the Task Force focused on the investigations of the eight staff members placed upon special leave with pay following the decision by the administration. During the course of these investigations, the Task Force concluded a case of an elaborate scheme by one of the eight staff members, former procurement official Sanjaya Bahel, and the representatives of the vendor Telecommunications Consultants of India Ltd. (TCIL), to steer approximately $100 million in contracts to the company. The case of Mr. Bahel was referred for criminal prosecution and Mr. Bahel was found guilty of bribery, wire fraud, and mail fraud in the United States District Court, Southern District of New York.

* Reissued for technical reasons.
** A/62/150.

07-46280* (E) 051007
0746280

Permanent Subcommittee on Investigations
UNDP Report-FN 118

While six of the eight staff members were charged with misconduct, five cases remain under active consideration at the time of this writing. Some of the investigations of these cases are discussed in general terms in the present report for the purpose of providing the General Assembly with an overview of the work of the Task Force. The intention in these summaries is not to report on the cases of these individuals, but to provide an overview of the nature of the investigation and the efforts of the Task Force in the reporting period. In that regard, in these active matters the findings of the Task Force should be regarded as those of the Task Force, and not a final determination by the administration or the Organization. In the matters which involve the staff members whose cases are pending consideration, misconduct on the part of the staff member concerned should not be presumed. Rather, it is the duty of the Administration to prove any violation of the Organization's rules and regulations by a preponderance of the evidence in the administrative disciplinary process.

The Task Force investigations also concerned numerous procurement exercises and the award and execution of a large number of valuable contracts concerning six of the seven peacekeeping missions examined, including the United Nations Mission in the Sudan, the United Nations Organization Mission in the Democratic Republic of the Congo and the United Nations Stabilization Mission in Haiti. The Task Force reports highlighted significant findings of corruption, fraud, waste, abuse, negligence and mismanagement in a number of high value contracts, which reflect in part a deficiency in the internal control systems in the Organization. OIOS addressed this issue on numerous occasions and again urges the Organization to establish a robust internal control framework.

A number of cases have been referred to national authorities for criminal prosecution or to the Organization for consideration of subsequent legal action. The Task Force has also recommended civil recovery of monetary damages.

The Task Force has faced a number of challenges related to difficulties in obtaining and reconstructing relevant data, the lack of compulsory process outside the United Nations system, limited cooperation from some parties, including staff, vendors and their representatives, and the fact that several key witnesses could not be located or would not agree to an interview or production of relevant documents. These challenges must be addressed urgently for more effective investigation. These are also important in establishing more rigorous control over the procurement process in the future.

The Task Force continues to examine cases at United Nations Headquarters and the remaining peacekeeping missions. However, the Task Force is funded for the period until 31 December 2007 and it is unlikely that these cases will be finalized by the end of this year under the current arrangement. OIOS will propose for the consideration of the General Assembly that the competence of the Task Force be incorporated into the overall capacity of OIOS.

[1] These figures are approximate as in many cases precise calculation is not possible. The calculation involving misappropriation of resources is based on a calculation of either the amount of loss to the Organization or the amount by which the outside vendor, agent or individual was unjustly enriched.

Contents

		Paragraphs	Page
I.	Introduction	1–4	4
II.	Summary of investigation activities	5–17	4
III.	Major investigations: results and recommendations	18–62	7
IV.	Task Force resources	63–66	17
V.	Overall observations based on the Task Force investigations	67–79	18
VI.	Plan for completion of the work of the Task Force	80–84	23
Annex			
	List of final reports completed during reporting period		24

I. Introduction

1. The Procurement Task Force of the Office of Internal Oversight Services (OIOS) was established on 12 January 2006 in response to the perceived problems in procurement identified by the Independent Inquiry Committee into the oil-for-food programme and the arrest and conviction of Alexander Yakovlev, a former procurement officer. The establishment of the Task Force also supports the Organization's ambition to address and fight corruption in the Organization. The Task Force operates as part of OIOS and reports directly to the Under-Secretary-General for Internal Oversight Services. The mandate of the Task Force is to investigate all procurement-related cases involving procurement bidding exercises, procurement staff and vendors doing business with the United Nations.

2. The Task Force began as a small, ad hoc group with a complement of six investigators. However, a review of existing cases referred by the Investigations Division of OIOS and initial interviews with procurement staff at United Nations Headquarters in New York clearly indicated that the number of cases far exceeded what had originally been envisaged. It was agreed that the Task Force should be expanded with 20 investigator posts and some additional support staff.

3. In January 2006 the United Nations administration decided to place eight staff members on special administrative leave with pay. They were the staff identified in an audit report issued by OIOS on 19 January 2006 (AP2005/600/20). The audit report identified a number of fraud indicators and suspected instances of mismanagement resulting in financial loss to the Organization and the Task Force was asked to address the allegations in the audit report as a priority. Each of the individuals was the subject of multiple allegations, including new allegations that arose during the course of the investigation, involving different contracts and missions. In addition to those eight staff placed on administrative leave, the Task Force has also focused on several cases involving procurement irregularities in the United Nations Mission in the Sudan (UNMIS), the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC) and the United Nations Stabilization Mission in Haiti (MINUSTAH).

4. In the course of its investigations, the Task Force identified multiple instances of fraud, corruption, waste and mismanagement at United Nations Headquarters and peacekeeping missions, including 10 significant instances of fraud and corruption in cases with an aggregate value in excess of $610 million, which resulted in misappropriation of resources or the unjust enrichment of vendors and their agents in excess of $25 million.

II. Summary of investigation activities

A. Task Force caseload

5. The Task Force has received and accepted 319 procurement-related cases from the Investigations Division of OIOS for investigation. In addition, the Task Force identified 22 additional significant cases based on its review of the procurement matters at Headquarters and various United Nations missions.

6. The Task Force has completed 63 investigations. The aggregate contract value for the cases investigated by the Task Force during the reporting period exceeds $1.4 billion. More than 82 per cent of these Task Force cases dealt with procurement in various United Nations peacekeeping missions, while approximately 18 per cent addressed procurement-related matters at United Nations Headquarters and various agencies.

B. Summary of investigation activities

7. The Task Force initially focused its resources on investigating the eight staff members placed on administrative leave in January 2006. There were numerous allegations concerning these staff, arising from the audit report, the existing inventory of Investigations Division cases, and the preliminary interviews conducted by the Task Force. Many of the matters spanned several years, and many were premised upon activity in a number of separate cases.

8. The Task Force has issued nine reports pertaining to these eight staff members. Each of these reports has examined multiple procurement exercises in which these staff members were involved, or matters in which they authorized expenditures of funds and in so doing were alleged to have breached procurement and financial rules. In some cases, the investigation identified fraud, misconduct and breaches of the United Nations Staff Regulations, as well as financial and procurement rules. In other cases, the investigations have determined that the staff members did not act improperly, unlawfully, or in violation of the rules and regulations of the Organization, and that they should be exonerated. In that regard, OIOS has recommended that three of the eight staff members be cleared of allegations of wrongdoing, that one be referred for criminal prosecution, and that the Organization address the issue of accountability for the other four staff members for either breaches of the Staff Regulations and Rules or deficiencies in their management responsibilities. The staff member whose case was referred for criminal prosecution — Sanjaya Bahel — has since been dismissed by the Organization and was found guilty of bribery, wire fraud and mail fraud in the United States District Court, Southern District of New York. In addition, the Organization has charged two of the staff members with misconduct.

9. The Task Force investigations also concerned numerous procurement exercises and the award and execution of a large number of highly valuable contracts. The Task Force issued 13 reports, which highlighted significant findings of waste, abuse, negligence, and other forms of mismanagement, as well as of multiple instances of fraud and corruption in these contracts. A number of cases were referred to national authorities for criminal prosecution or to the Organization for consideration of subsequent legal action, including civil recovery of monetary damages.

C. Challenges in conducting investigations

10. The Task Force has faced a number of challenges related to difficulties in obtaining and reconstructing relevant data, including the lack of compulsory process outside the United Nations system, limited cooperation from some parties, including United Nations staff and vendors, and the fact that several key witnesses could not be located or would not agree to an interview or production of relevant documents.

These challenges are explained further below and need to be addressed urgently for more effective investigation. These are also important in establishing more rigorous control over the procurement process in the future.

1. Procurement records

11. The Task Force noted that the procurement records were often incomplete and poorly maintained. The Task Force made significant efforts to locate and obtain all relevant files in many cases. In some missions, such as MONUC, there was essentially no organized document collection in a number of the procurement exercises and numerous documents were missing. Payments did not tally with the supporting invoices and there was no explanation evident in the file. In addition, it was not always possible to determine who was responsible for a file's management, who had accessed it, or who had removed documents from it.

2. Mutual legal assistance

12. The Task Force has a significant number of cases in which evidence must be obtained abroad. The Task Force has no coercive power over any third party. To obtain overseas evidence, the Task Force needs to engage a relevant law enforcement agency or national authority that can assist with certain investigative matters. However, with regard to certain types of evidence, the Task Force requires assistance in the framework of mutual legal assistance using legal powers in a foreign jurisdiction. In these situations, the Task Force requests a Member State for assistance in acting on its behalf. Such requests often take many months to process. Consideration should be given to whether OIOS on behalf of the United Nations can become a party to mutual legal assistance instruments as it would certainly expedite the investigations. No such possibility currently exists but that fact should not preclude consideration of whether it is desirable and achievable.

3. Vendor cooperation

13. Any vendor which succeeds in a bid will enter into a contract with the United Nations with a number of standard provisions, including provisions concerning vendor assistance to any duly authorized investigation. However, when asked to cooperate with the Task Force, many vendors engaged in delay, refusal and strategic manoeuvring. For instance, one of the vendors asserted to the Task Force that it is under no obligation to cooperate with the investigations carried out by the Task Force into their clandestine involvement in a United Nations contract, on the ground that they were not a direct party to the United Nations contract under review. On the other hand, the vendor claimed that it was entitled to copies of the Task Force documents despite its refusal to fully cooperate with the Task Force.

14. Effective oversight cannot be accomplished to any meaningful degree without an absolute and unequivocal obligation on the part of vendors, vendor intermediaries and principals to cooperate with investigations. Therefore, the cooperation by vendors with the investigations must be made mandatory and enforced. In this regard, OIOS believes that the United Nations General Conditions of Contract and vendor registration forms should be amended to make absolutely clear that vendors, their subsidiaries, agents, intermediaries, and principals are required to meaningfully cooperate with the investigations of OIOS. Such cooperation shall include, but not be limited to, access to all employees,

representatives, agents and assignees of the company, as well as production of all documents requested, including financial records.

15. Failure to fully cooperate with investigations must constitute sufficient grounds allowing the Organization to repudiate and terminate the contract and debar and remove the vendor from the Organization's list of registered vendors. Although OIOS has a right to request vendors to reasonably cooperate, it has become a practice only very recently that a vendor will be suspended from the vendor database for such non-compliance.

16. One of the most time-consuming and difficult investigative tasks has been to establish whether a vendor and its principals have any connection with other bidders. The Task Force has investigated at least three cases in which a principal of a company separated from a suspended vendor and then later joined or established another entity to carry out business with the Organization. Any bidder, as a part of its requirement for cooperation, should be obliged to submit to full scrutiny by OIOS in order to allow for verification that it is not connected to other bidders.

17. On the other hand, OIOS believes that there must be a mechanism by which investigators can solicit and reward a company for cooperating with investigations and by divulging fraudulent and corrupt behaviour as well as employees who have engaged in such malfeasance. Together with a compliance programme to guard against recurring offences, the Organization should have a mechanism to allow for a reduction in punishment for full cooperation and the institution of measures, including ethics training. Numerous vendors have asked the Task Force for reasons to cooperate and admit corrupt activities when they are going to be barred permanently, in any case.

III. Major investigations: results and recommendations

A. Reports relating to eight staff members placed on administrative leave

1. Investigation report on Sanjaya Bahel, including the companies Thunderbird, PCP and TCIL

18. The Task Force investigation identified an extensive scheme by agents and representatives of a large telecommunications company to defraud the Organization (PTF-R003/06). It also concluded that Mr. Bahel had engaged in a series of unauthorized acts in an effort to provide the company with an advantage in the procurement process and deflect criticism on the company when allegations of corruption and mismanagement surfaced.

19. Mr. Bahel had favoured the company in at least eight contracts with an aggregate value of approximately $100 million, including a $27 million contract to provide manpower support in the Organization's various missions. Furthermore, Mr. Bahel advanced the company's interests when complaints were lodged against the company for its failure to remit significant sums of money paid by the Organization intended for the company's contract staff. In return, the representatives of the company provided Mr. Bahel with two valuable Manhattan apartments worth in excess of $1.5 million at a price below market rate, and by bestowing other gifts upon him. The Task Force also found that Mr. Bahel conspired with a principal of

another large United Nations vendor and received gifts and benefits from the company official in consideration of favourable action taken by Mr. Bahel on the company's behalf in various large contracts.

20. In response to the Task Force report, the Organization charged Mr. Bahel with misconduct and subsequently dismissed him. Several vendors identified by the Task Force as engaging in misconduct and fraud were removed from the United Nations vendor roster.

21. The Organization also referred the matter to the United States Attorney's Office for the Southern District of New York for criminal prosecution, which has charged Mr. Bahel and Nishan Kohli, the company's principal agent, with conspiracy and illegally accepting bribes concerning programmes receiving United States federal funds. Mr. Kohli pleaded guilty to the conspiracy as charged. The company official acknowledged, as was identified in the Task Force investigation, that he had provided Mr. Bahel with cash and real estate in return for favourable treatment in the bidding and procurement process. On 7 June 2007, Mr. Bahel was convicted of all six charges contained in the indictment, which was based almost exclusively on the Task Force report. At trial, Mr. Bahel's defence admitted that the fraud he had committed against the Organization exceeded $20 million for the manpower contract alone.

2. Report on two United Nations vendors and a United Nations staff member

22. This report (PTF-R010/06) focused on the procurement exercise and execution of the food rations contracts for the United Nations Mission in Liberia (UNMIL) ("the Liberia contract") and the United Nations Mission in Ethiopia and Eritrea (UNMEE) ("the Eritrea contract"), worth in excess of $86 million. The investigation revealed that the integrity of the procurement process was undermined by the nefarious actions of a procurement officer and representatives from two United Nations vendors.

23. The Task Force established that a procurement officer helped a vendor fraudulently obtain confidential United Nations documents and information including bids from competing companies. At the time of the bid, the company officials established a base of operations at a hotel room near United Nations Headquarters. After the deadline for submission of financial and technical proposals, a procurement official provided company officials with the bid submissions of its competitors and the company officials redrafted the company's submission in the hotel room. This information allowed the vendor to reduce its prices, and then replace the bid pages and submit a more competitive offer. The procurement official resubmitted the company's redrafted proposal surreptitiously. As a result, the vendor secured the Liberia and Eritrea contracts. The company was also assisted by a representative of a vendor who frequented the United Nations procurement offices and "lifted" documents from copy machines located in the office. The procurement official also provided the representative with confidential United Nations documents. The vendor-intermediary was paid approximately $2.8 million for its efforts.

24. The Task Force found that the vendor continued to defraud the Organization through subsequent amendments to the contract to compensate for the losses incurred when the company fraudulently lowered its initial proposal to secure the contract. The procurement officer facilitated this process to the detriment of the

Organization. As a result of these fraudulent acts, the Task Force estimated that the Organization suffered financial losses of approximately $860,000 in the case of the Liberia contract alone. On the other hand, the Task Force learned that a civil lawsuit brought by the competitors in the United States was settled out of court for approximately 40 million pounds sterling — over $74 million. The United Nations was not a party to the settlement, and did not receive any sums under the settlement agreement. In certain jurisdictions, damages in public corruption litigation are calculated as the entire amount of the contract value.

25. The Task Force also concluded that while still employed by the United Nations, the procurement officer engaged in a joint business pursuit with a second vendor, who provided temporary employment to the procurement officer's son. As a result of the Task Force recommendations, both vendors were removed from the list of the United Nations vendors and the Organization is currently considering legal action against the vendors to compensate for the damages and loss caused by their nefarious acts.

3. Interim report on a concerned United Nations staff member

26. This report (PTF-R011/06) addressed the role of a senior staff member in several procurement exercises, including a contract for electrical services for United Nations Headquarters (valued at over $57 million) and a staffing support contract (valued at over $33 million). The Task Force determined that:

(a) The staff member improperly endorsed the continuation of a major electrical services contract, despite having been informed of the significant failings of the contractor in the contract execution and the extreme work performance deficiencies of the contractor's agents and employees and thereby exposing the Organization to the continued risk of financial loss. The vendor repeatedly overcharged the Organization and failed to adequately correct numerous work performance issues;

(b) The Task Force found that the manpower contract was tainted by the fraudulent conduct of a vendor and the principal supervising procurement officer within the Procurement Service (Mr. Bahel). The staff member was repeatedly made aware of the issues arising under the manpower contract and of the complaints that workers employed by the vendor were not receiving subsistence sums rightfully due to them. Nevertheless, the staff member failed to address these issues.

27. The Task Force further found that the staff member omitted critical financial information from his submissions to the Organization for the years 2003, 2004 and 2005, including information concerning his bank accounts, real property and financial information concerning the staff member's spouse, contrary to the Organization's rules on financial disclosure. When the Task Force requested that the staff member disclose certain financial information and answer further questions about his assets, he declined to fully produce such material. Only after a subsequent direction from the Secretary-General did the staff member partially disclose information, and the disclosure was made under specific conditions. As a result, the staff member did not produce all of the information he had been directed to disclose and, therefore, did not fully comply with the Secretary-General's instruction.

28. The staff member was subsequently charged with misconduct in connection with his refusal to provide full and complete information to the Task Force; his

refusal to comply with a specific direction from the Secretary-General; and his inaccurate and incomplete disclosures in the financial disclosure form. At the time of this writing, the case of the staff member was still pending in the Joint Disciplinary Committee.

4. Amended report on a concerned United Nations staff member — Interim Report on UNMIS and investigation report on a United Nations staff member

29. These reports (PTF-R005/06 and PTF-R006/06) addressed several procurement exercises undertaken by two senior staff members. These procurement exercises included: a contract for over $1 million to support the deployment of military troops in 2005; the procurement by UNMIS of equipment for an airport and the procurement of a fuel contract in excess of $86 million and a food rations contract in excess of $200 million. The Task Force recommended appropriate action to commence against the two staff members, as well as the removal of a vendor and its principal from the vendor roster. However, this case remains pending at the time of this report, and therefore the summary below should be considered preliminary.

(a) During the deployment of the troops, UNMIS improperly utilized an existing but unrelated aircraft and fuel services contract with a financial limit of $45,000 for expenditures, which ultimately exceeded over $1 million. As a result, the Mission accumulated an unapproved debt of more than $1.3 million. A senior staff member failed to identify and correct this irregularity. Similarly, another senior staff member approved payment of these debts of approximately $1 million without following proper procedures. That individual also failed to address whether the debt had been properly incurred;

(b) The Task Force concluded that the Mission procured equipment for an airport worth in excess of $589,000, which, however, failed to meet the safety specifications of the United Nations and the International Civil Aviation Organization also procured other equipment which was unnecessary. Furthermore, the Task Force concluded that a senior staff member, after being informed of the procurement exercise in question, failed to address the question that the suggested technology did not meet relevant specifications;

(c) The Task Force did not identify evidence that the staff member was involved in steering the short-term fuel supplies contract to any particular vendor. However, the Task Force established that the not-to-exceed amount for the short-term fuel contract was in fact unjustifiably increased by approximately $22.5 million with the approval of this individual, who failed to ensure appropriate review of the fuel figures, which proved to be erroneously calculated.

30. In a separate report (PTF-R007/06), the Task Force established that a former staff member had acted improperly by purposely favouring the vendor throughout the process; participating in the bidding exercise despite the existence of a personal relationship with the vendor's Executive Director; and improperly accepting assistance from the Executive Director in order to further a visa application for the former staff member's wife for entry into the country in which the vendor was based.

5. Report on a concerned United Nations staff member and interim report on two United Nations staff members

31. The Task Force examined whether a procurement officer improperly provided advanced notification of a contract award to a United Nations vendor prior to completion of the contract award procedures. The Task Force also investigated whether the staff member attempted to steer a United Nations contract towards a particular vendor by cancelling the contract bid results and seeking a rebidding exercise. The review of the evidence available at the time and the interview with those individuals involved did not identify sufficient basis to make adverse findings against the staff member.

32. However, after the issuance of its report (PTF-R001/06), the Task Force discovered new evidence in relation to the staff member concerned. Specifically, as discussed in the interim report on two staff members (PTF-R005/07), the Task Force established that the staff member as well as another staff member willingly and improperly socialized with a representative of a United Nations vendor and accepted gifts in violation of the Staff Regulations and relevant procurement rules. Both staff members had been interviewed by the Task Force about this specific vendor as part of several ongoing investigations. Significantly, both staff members failed to inform the Organization about their involvement with the vendor and failed to reveal the above incident to the Task Force. The staff members were subsequently charged with misconduct based upon the Task Force's report, and have been suspended with pay. Their cases remain pending. Thus, this summary should be considered preliminary.

6. Investigation concerning a United Nations staff member

33. This report (PTF-R004/06) addressed a number of allegations with regard to contracts for short-term fuel supplies and food rations for UNMIS. The Task Force examined whether the staff member concerned was involved in any efforts to inflate the fuel requirements for and steer the contracts to a particular vendor. Further, the Task Force examined whether the staff member exercised any improper influence in favour of another vendor during the bidding process for the food rations contract.

34. The Task Force did not identify evidence of the staff member's involvement in inflating the fuel requirements or steering the short-term fuel supplies contract to any vendor. Furthermore, the Task Force did not identify any improper actions or influence on the part of the staff member with regard to the food rations contract for UNMIS.

7. Report on a concerned United Nations staff member

35. This report (PTF-R009/06) addressed several procurement exercises undertaken during the course of the senior staff member's term in UNMIL.

36. The OIOS audit report on the Department of Peacekeeping Operations procurement (AP2005/600/20) found that the Engineering and Procurement Sections at UNMIL intentionally "split" requisitions in order to keep the value of the contracts below a monetary limit and thus bypass review by the Local Committee on Contracts and the Headquarters Committee on Contracts, which was confirmed by the Task Force investigation. The Task Force concluded that the staff member, acting in his role as a senior official in the Mission, did, on occasion, improperly

approve requisitions which were split. However, the circumstances were few and outweighed by instances in which the staff member intercepted such efforts by requisitioners. Therefore, the Task Force did not find that the staff member concerned violated any Staff Regulations or financial or procurement rules.

37. The Task Force also examined this staff member's approval of a vendor registration when he had previously been serving in the Procurement Service in New York. That company had been permitted to register as a United Nations vendor even though it failed to submit audited financial statements and income tax returns. While the Task Force found that the staff member's decision was improper, and demonstrated a lapse in supervision, it did not find any evidence that the staff member had acted purposefully or recklessly in connection with this decision. The Task Force recommended that the staff member be cleared of any allegation of wrongdoing with regard to the matters addressed in the report.

B. Interim report on MONUC procurement and five United Nations procurement officials

38. The Task Force received more than 40 complaints and cases involving corruption and procurement irregularities in MONUC. Between February and June 2007, the Task Force focused its efforts (see PTF-R011/07) on 18 of these cases involving procurement exercises with contract values exceeding $25 million. Several more investigations regarding procurement activities in the mission are ongoing.

39. The Task Force found numerous cases in which vendors and companies doing business with the Mission were required to pay sums of money to staff in order to be awarded contracts with the Organization, or offered to pay sums of money in exchange for assistance in the procurement. Despite repeated complaints from vendors and United Nations staff, and although these facts were well known throughout the business community in Kinshasa, this fraudulent conduct continued uninterrupted.

40. In particular, the Task Force identified an extensive effort by a procurement staff member, over an almost 20-year period, to solicit payments and bribes from several vendors in exchange for preferential treatment and various benefits. The Task Force also identified four other instances in which staff members had received sums of money from vendors. In one of these cases, the vendor provided a payment "schedule" detailing what he described as payments to MONUC staff members. Only two of the staff members admitted the receipt of payments, which they characterized as "loans". Yet, the "loans" were made interest free, and were not memorialized by any written agreement and in some cases were not paid back at all or were repaid only years later. The Task Force further found that these and other staff members engaged in corrupt acts in these matters, and compromised the integrity of the procurement and contract selection processes. As a result of the Task Force investigations, five staff members were placed on special administrative leave, and were charged with misconduct.

41. The Task Force further found that the MONUC Procurement Section lacked a comprehensive and organized filing system. In a number of cases investigators were provided with loose papers and miscellaneous documents that did not allow for a

comprehensive analysis of the events under investigation. Furthermore, critical documents were often missing from the files.

42. The Task Force considered this a result of collapse of ethical culture and extensive corruption in procurement in the Mission which has existed for years. The Task Force found that a lack of continuity at the managerial level on the one hand, improper ethics and procurement training, and little rotation within the Professional and General Service staff level on the other, contributed to this development. The Task Force thus concluded that the Mission should overhaul its procurement operations, provide extensive ethics training, or divest responsibility for procurement to Headquarters or to an independent third party.

C. Report on the ground fuel procurement at MINUSTAH

43. The Task Force examined the MINUSTAH procurement exercise (see PTF-R010/07) for the long-term supply of ground fuel in excess of $27 million and identified a scheme involving participation of five mission staff knowingly involved in the corrupt effort. These staff members severely compromised the integrity of the procurement process and committed corrupt acts throughout the process.

44. Upon discovering that the current supplier (the favoured vendor) was not technically qualified to win the contract and did not offer the lowest cost proposal, these staff members conspired to allow the vendor to correct its proposal and submit additional missing information. After a second call for bids (through the use of a best and final offer), the technical evaluators were instructed to rank the preferred vendor as the highest technically qualified bidder. However, the company still did not offer the lowest cost proposal. Senior staff members then instructed junior staff to change the fuel estimates to ensure that the vendor offered the lowest prices. As a result of this manipulation, the preferred vendor was deemed most technically qualified and presenting the lowest cost proposal, and therefore was awarded the contract. Fortunately, the Headquarters Committee on Contracts found a number of procurement irregularities and rejected the Mission's recommendation to award the contract to the favoured vendor. Despite this decision, the Mission was unable to reach an agreement with the second vendor; hence, the favoured vendor continues to supply fuel to the Mission.

45. Additionally, the Task Force identified an effort by one procurement official to solicit a bribe from one of the competing vendors in exchange for a promise to assist the vendor in the contract selection process. Furthermore, during the course of the investigation of the staff member, after learning that the Task Force was investigating the matter and intended to issue a report on him, the staff member contacted a representative of a vendor who had been cooperating with the Task Force and berated the vendor for its cooperation with the Task Force. The Task Force considers these actions to be serious matters constituting obstruction of justice.

46. In connection with the investigation into the matter, some of the senior managers made material misrepresentations to the Task Force, the Local Committee on Contracts, and the Headquarters Committee on Contracts to conceal their manipulation of the procurement exercise. The Task Force recommended that appropriate action be taken against those five staff members and that the matter be

referred to prosecutorial authorities. This case remains under active consideration and these findings should be considered preliminary.

D. Interim report on matters concerning former United Nations staff member Alexander Yakovlev and associated vendors, report on two United Nations vendors, report on a United Nations vendor and report on two United Nations vendors

47. In these reports (PTF-R002/07, PTF-R006/07, PTF-R008/07), the Task Force addressed the procurement actions tainted by the criminal behaviour of Alexander Yakovlev, who in 2005 was found by the Independent Inquiry Committee into the oil-for-food programme to have accepted monies for valuable treatment on behalf of several contractors serving peacekeeping missions. Following his arrest by the United States federal prosecutors, the staff member pleaded guilty to fraud, conspiracy and money-laundering. The Task Force has since identified further procurement exercises tainted by him and a number of additional vendors with whom he was closely associated.

48. The Task Force established that beginning in or about 1993 and continuing until his arrest in 2005, Mr. Yakovlev engaged in a corrupt scheme to solicit and accept sums of money and items of value from a number of United Nations vendors seeking to obtain United Nations contracts. The Task Force established that the staff member and entities and individuals associated with him cumulatively received over $3.5 million from at least five United Nations vendors in exchange for confidential United Nations documents and information, as well as the staff member's assistance in steering the contracts towards those vendors.

49. Most of the proceeds of the staff member's illegal activities were disbursed into a number of bank accounts associated with the staff member. The Task Force identified 14 accounts used as part of the scheme, including accounts in Antigua, Austria, the United States of America, the Russian Federation, Cyprus, Liechtenstein and Switzerland, some of which still contain substantial assets. For instance, at the time of the present report, the staff member's account in one jurisdiction contained over $1 million.

50. The Task Force recommended that the Organization seek recovery of the illegal proceeds of the staff member's schemes and consider taking legal action against the vendors involved. Efforts have begun to recover the money corruptly obtained by the staff member and entities and individuals associated with him.

E. Report on a United Nations vendor and the United Nations Pouch Unit

51. The Task Force conducted an investigation and concluded (see PTF-R001/07) that a vendor improperly used the United Nations diplomatic pouch services to transport goods to the Organization's missions in violation of the privileges granted to the United Nations under the Convention on the Privileges and Immunities of the United Nations. The Task Force further found that the vendor defrauded the Organization by charging freight costs for the shipments while he shipped the items at no cost through the use of the diplomatic pouch services.

52. The Task Force investigations established that a senior staff member failed to appropriately respond to the abuse of the pouch system once the scheme was identified. The Task Force further found that another senior official failed in his duty to implement and enforce procedures to protect the integrity of the diplomatic privileges granted to the Organization.

53. The Task Force established that the scheme existed and continued in part owing to the negligence by United Nations staff members at the Headquarters Pouch Unit, a lack of proper communication between Headquarters and the missions, and insufficient instructions by the Organization to staff in the missions regarding the appropriate use of the pouch system.

54. As a result, the Task Force determined that the Organization suffered financial losses in the amount of approximately $61,000 ($33,707 of which was recovered). However, the exact loss is very likely higher since the Task Force investigation focused on only 13 missions in which at least some records were available. Owing to limited record retention policies, several missions did not have records that could be examined by the Task Force.

F. Interim report on a United Nations staff member and UNOPS procurement

55. This report (PTF-R003/07) focused on allegations that a staff member of the United Nations Office for Project Services (UNOPS) had been systematically corrupting the procurement process in the UNOPS Eastern and Southern Africa Regional Office, located in Nairobi.

56. The Task Force found that the UNOPS staff member, together with the staff member's spouse and other individuals, participated in a fraudulent scheme to steer several UNOPS contracts to a company owned by the staff member's spouse. The scheme was accomplished through the submission of purportedly independent bids from companies which appeared to be legitimate competitors. In fact, the bids were organized by the staff member's spouse and associates and included a proposal from the company of the staff member's spouse. The staff member vouched for the spouse's company and assisted the spouse's efforts to secure the contracts and obtain payment from the Organization. The staff member instructed a subordinate to assist the staff member's spouse in the scheme, who directed the staff member's spouse to submit competing bids from purportedly independent companies, and accepted submissions which he knew were fraudulent and intentionally designed to create an appearance of legitimate competition. The staff member further facilitated the scheme by processing documents submitted by the spouse's company and pressuring finance staff to expedite payment to the company. The Task Force recommended that appropriate action be taken against the staff member and the matter be referred to national prosecutorial authorities in Kenya.

57. The investigation led to the discovery of a much larger scheme to systematically defraud UNOPS and the United Nations, involving the staff member, the spouse and companies associated with the spouse for contracts with an aggregate value exceeding $350,000. The final report of the Task Force on the scheme (PTF-R012/07), issued in August 2007, described further instances of fraud and corruption and recommended that appropriate action be taken against a number of staff members and vendors.

G. Report PTF-R004/07 Final report on the sale of the United Nations Postal Administration philatelic materials

58. In May 2003, the United Nations Postal Administration auctioned a collection of its philatelic material through a private auction house in Geneva. The sale netted the Organization approximately $2.5 million. The Task Force did not identify evidence of criminal activities by either United Nations staff members or the representatives of the auction houses involved in the disposal process. However, it found that certain individuals did not follow the appropriate procedures and internal controls concerning the disposition of United Nations property.

59. The Task Force investigation revealed that a senior official failed in his responsibility to report the intended sale to the United Nations Property Survey Board, as was required by the United Nations procurement rules. The Task Force further found that another senior official exceeded his authority when he recommended potential auction houses to the Procurement Service. The Task Force further established that the a senior staff member of the Property Survey Board — although aware of the imminent sale — failed to comply with the United Nations Financial Rules by not submitting the Property Survey Board's recommendations to the appropriate United Nations sections for their approval of the sale.

H. Summary of misappropriation and recovery actions

60. During its reporting period, the Task Force identified over 10 significant instances of fraud and corruption involving a number of valuable contracts with an aggregate contract value exceeding $610 million, which resulted in misappropriation of resources in excess of $25 million, a very conservative estimate. The ascertainment of an accurate dollar amount of actual out-of-pocket losses to the Organization requires additional analysis by qualified experts and should include sums not only converted to others but used for purposes not originally intended through management errors and misappropriations. Some courts typically assess damages in corruption cases not on the actual and direct loss figure, but the entire value of the contract at issue. An example (see PTF-R010/006) is provided in the matter discussed above in paragraphs 22 to 25. Under many statutes, and under many court decisions, it has been determined that actual monetary "loss" is not the appropriate measure of harm in a corruption case. Such calculations do not include the intangible cost to the victim of the presence of corruption in its procurement function and the compromise to the integrity of the process. Further, prices of contracts infused with corruption are typically inflated to account for the percentage paid to secure the contract. In other cases, the perpetrators make up for lowering their proposed costs through subsequent charges and amendments to the contract, and other acts.

61. The Task Force has recommended that the Organization recover losses resulted from fraud and corruption as discussed herein through a variety of means. For instance, one former procurement officer received over $3.5 million from his corrupt conduct and has been found criminally liable. The Task Force advised and recommended that the United Nations seek recovery from the staff member in the form of restitution as part of the criminal sentencing proceeding in the United States District Court, Southern District of New York. After requests by the Task Force to pursue restitution, the Office of Legal Affairs referred the matter to its outside

counsel and sought counsel's advice. Outside counsel agreed with the Task Force that recovery was possible and that the United Nations was a victim of the staff member's scheme and therefore had rights at sentencing. The United Nations has since made such a claim for restitution from the staff member and the request has been favourably received by the United States authorities. It is expected that a restitution order will be issued in the amount of at least $900,000, and that prosecutors in the case have agreed to recognize the United Nations as a victim of the offence.

62. Similarly, the Task Force contacted the national authority of one Member State regarding a bank account the same staff member controlled in that Member State and which he used as a repository for funds of his scheme. The amount of funds currently held in the account exceeds $1 million. The Task Force, on behalf of the United Nations, asserted an interest in recovering that money with the Member State. The national authorities of the Member State recognized the United Nations interest in those assets. The Task Force expects the Organization can recover at least $2 million — and as much as $3.5 million — from various accounts associated with the staff member if the matters are properly pursued.

IV. Task Force resources

A. Human resources

63. As noted above, the Task Force began in the late fall of 2005 as a small, ad hoc group, with a complement of six investigators. The Task Force was not fully operational until late spring of 2006 with the arrival of additional investigative staff with specialized experience in economic crime and large-scale commercial investigations. The Task Force currently retains 16 investigators but faces the challenge of keeping highly skilled investigators who are offered only temporary short-term contracts of a few months because of budget allotments.

B. Financial resources

64. For the calendar years 2006 and 2007, the Task Force was allocated approximately $10.8 million. The total expenditures of the Task Force are approximately $6.5 million as of 30 June 2007, as summarized in the table below.

Total allotments and expenditures of the Task Force as at 30 June 2007
(United States dollars)

Allotments		*Expenditures*	
OIOS		OIOS	
Allotment[a]	9 744 357	Obligations	988 321
		Disbursements	4 852 929
Department of Management		Department of Management	
Allotment[b]	1 049 888	Obligations	124
		Disbursements	697 580
Total	**10 794 245**		**6 538 954**
		Allotment balance	**4 255 291**

[a] Designated to cover staffing costs, such as salaries, consultants and travel.
[b] Designated to cover the costs of premises, communications, supplies, etc.

65. The funding arrangements for the Task Force were facilitated by the Controller's Office at the request of the Under-Secretary-General for Internal Oversight Services and the former Under-Secretary-General for Management. Although forecasts were prepared by the Task Force on likely expenditure, it took no part in identifying necessary funds.

66. The Task Force expenditures in 2006 and first half of 2007 accounted for approximately 61 per cent of its allotment, which included staff cost, rental of premises, costs of office materials and equipment, forensic analysis and other investigative expenses.

V. Overall observations based on the Task Force investigations

67. The Task Force experience of the last 18 months has enabled OIOS to determine that there is a pressing need to bring sweeping changes into the United Nations procurement system. OIOS had paid particular attention to the procurement area owing to its budget materiality, inherent business and reputation risks, as well as the unsatisfactory state of internal controls, which OIOS audits and investigations have consistently noted and reported upon. Moreover, the revelations by the investigations of the Task Force concerning serious procurement irregularities indicate that there is a need to overhaul the manner in which procurement is handled in the Secretariat and to strengthen oversight and investigative capabilities. It is also important to take into account that corruption in procurement in a number of instances stems from vendors and their intermediaries and agents to identify and exploit weaknesses in the system and staff. In a number of cases, the schemes emanate from those companies and their principals.

68. It should be stressed that the numerous cases of mismanagement, waste of resources, fraud and corruption found by the Task Force reflect the absence of a robust internal control system in the Organization. OIOS addressed that issue on numerous occasions and again urges the Organization to establish a robust internal control framework, clarifying and stressing management's inherent responsibility

for the different elements in such a framework, including the responsibilities for the overall control environment based on ethical culture and the core value of the Organization, once eloquently established and expressed in the Charter of the United Nations.

69. OIOS considers procurement as the highest risk area and in accordance with its mandate, OIOS intends to submit to management and legislative bodies a comprehensive report on the management of procurement systems and reform. Notwithstanding the final outcome of the present review, the Task Force identified several areas where improvements in the United Nations regulatory framework should be made as a matter of urgency.

A. United Nations vendors

70. While recognizing its critical importance in providing a mechanism to screen vendors, the Task Force identified a number of deficiencies in the vendor screening process. The case discussed in the interim report (PTF-R003/06), set forth above, is a prime example concerning the weaknesses in the process and the importance of screening companies in the critical phases of the procurement process. The Task Force also found examples where vendors and, importantly, their principals provided inaccurate, incomplete and false information in the contract selection process, information which, if identified, could have prevented subsequent losses and irregularities in the process:

(a) *Verification of information*: The verification procedure of the information asserted by vendors should be more systematic and comprehensive. Furthermore, the coordination between the several vendor registration bodies throughout the United Nations system should be strengthened. The Task Force has identified cases in which vendors have routinely supplied false and incomplete information but nonetheless have been awarded contracts;

(b) *Requirement from vendors*: The current registration forms do not require the would-be registered vendor to disclose the identity of its principals, any former corporate incarnation or to declare that it has no connection with any United Nations staff member, directly or indirectly. This last point is particularly important because of the number of instances in which companies change their corporate identity and affiliations. For example, in one case a company against which adverse findings had been made was struck off by the Organization only to be re-registered shortly thereafter under a new name with the same principals. The registration documents should include additional questions, for example, regarding the use of any intermediaries, agents and consultants in relation to the United Nations contracts or contract bids; the applicant's financial status and the identities and roles of the company's principal officers;

(c) *Accountability by vendors*: There should be strict liability imposed upon vendors who supply insufficient, misleading or false information. For example, it should be made clear in the registration documents that false, incomplete or defective vendor registration application may result in the rejection of the application or cancellation of an already existing registration. Further, it should be made clear that the United Nations reserves the right to cancel the vendor registration status of any company found to be in violation of the rules or contractual provisions of the Organization;

(d) *Requirement on intermediary agent or sub-contractor*: There should be a requirement for the same level of disclosure as the vendor with regard to the intermediary agent or sub-contractor and their agreements with the vendor. It should be made clear that the acts and declarations of the agent should be deemed to be those of the principal.

B. Removal and suspension of vendors and dissemination of information

71. The Task Force found and OIOS considers that there is a conspicuous need for improved information-sharing between different parts of the United Nations and a more robust response to vendors when their malfeasance is identified. When an adverse finding is made in relation to a company, it is essential that such a finding be disseminated to all concerned parties. For example, the Task Force has conducted an investigation where a company was found to be acting corruptly in one peacekeeping mission. Thereafter, this company was found to be conducting its affairs in the same illegal manner in another mission. The first mission did not inform the second mission of the company's prior conduct. In another example, the Task Force made a strong adverse finding against a company. Notwithstanding this, two months after the Task Force report, the company was awarded a new multi-million-dollar contract. This situation occurred, seemingly, because of a lack of communication between departments within the Organization. A further example is that until early 2007, the Organization contracted a company which paid funds into a secret offshore bank account of a staff member who had been arrested on charges of money-laundering and fraud in August 2005.

72. Furthermore, there is a need for a vendor removal and suspension system which entitles the Organization, after due process, to publish its decision and in particular to inform other institutions such as the World Bank and the European Commission when adverse findings against a company are made. Equally, the Organization needs to act promptly in response to such received information. This would be beneficial in the fight against procurement fraud and corruption within the United Nations system and analogous institutions. Recently, the Inter-American Development Bank published on its website a list of barred companies. The Task Force suggests that this model should be closely studied as a possible way forward for the Organization.

C. Financial disclosure

73. The rules of the Organization — including staff regulation 1.2 (n) and ST/SGB/2006/6 — direct certain staff members to file financial disclosure forms with the Ethics Office, which is not part of the OIOS investigative function. Disclosure of personal information to the Ethics Office can provide information about a potential conflict of interest and any unexplained wealth. However, in corruption investigations in which prima facie evidence has shown that the staff member may have engaged in misconduct or corrupt activity, this routine disclosure is often insufficient and more detailed information is required. Currently, the staff members are required to cooperate with investigations and produce relevant information (staff regulation 1.2 (r)). However, the Task Force investigations of fraud and corruption have been slowed in part as a result of the refusal of some staff

members to disclose financial information to OIOS because of a belief that their obligations have been satisfied by making the annual disclosure to the Ethics Office. The current rules on financial disclosures pursuant to OIOS requests need to be clarified, and if necessary, strengthened.

(a) *Scope of the disclosure in investigations*: Financial disclosure to OIOS is required in certain investigations in more exhaustive detail regarding transactions, assets and persons covered in appropriate cases. OIOS, with the mandatory cooperation of the staff member, must be able to expand the scope of the disclosure to address all relevant issues under investigation when prima facie evidence of corruption and fraud exists. Furthermore, the Organization's rules should be clarified to require all staff members who are under investigation to make financial disclosures and assist in the verification process at the behest of OIOS. OIOS is of the view that such an obligation currently exists under the staff regulations identified above.

(b) *Accountability of staff*: The rules governing financial disclosure should be amended to make incomplete or inaccurate disclosure a prima facie ground to bring a charge of misconduct. The Ethics Office should refer such cases to OIOS for investigation.

(c) *Verification of information*: It is essential that financial disclosures be subject to comprehensive verification. Staff members should be required to provide such assistance as may be necessary to help in the verification process. For example, staff members should be required to give such direction to their bankers, lawyers, accountants or other third parties who may hold information under conditions of confidentiality, to release such documentation and information needed to establish the legitimacy of the assets and completeness of the information supplied.

D. Recovery action

74. The Organization needs to consider and vigorously pursue recovery actions against the staff members and companies when adverse findings have been made against them and it finds that the Organization is the victim of fraud or corruption by either a staff member or one of its contractors. Currently, those recovery provisions have rarely been used. A recent case investigated by the Task Force brought to light significant fraud and corruption which prompted civil litigation between the company and two competing bidders allegedly deprived of the contract by the acts of the respondent company. The three companies are reported to have settled the litigation for approximately $80 million. The United Nations has only recently started to consider — based on the recommendation of the Task Force — whether it has any right to initiate legal action for recovery.

E. Consistency in actions against staff

75. Proportionality and consistency are applied in determining whether disciplinary action is warranted. The difficulty is that application of these concepts appears to vary depending on the programme manager's perception of the gravity of the matter, the extenuating circumstances at the time of the conduct in question, and the staff member's position. In that regard, the Task Force has found that its reports

have received contradictory responses from different departments with regard to similar cases.

76. While every case should be assessed on its merits, it must be the fundamental right of every staff member to know what is acceptable and what is not in terms of his or her conduct. There are objective criteria available to apply to these considerations, including the number of instances, the amount of the financial loss, the extent of the disrepute brought to the Organization, and the grade of the staff member. Whatever the yardstick used, it must be transparent, rational, defensible and consistent. The absence of an Organization-wide standard is evident in the way some of the Task Force reports have been assessed. The legal grounds for determining what misconduct is are elaborated in several instruments. Regrettably, those instruments continue to be applied and interpreted inconsistently.

F. Due process

77. It has been a common feature of the Task Force investigations that staff members have asserted that their due process rights have been violated. This arises as a result of staff members' misunderstanding of how due process rights apply in the context of administrative fact-finding investigations. In other cases, claims of a violation of due process are used as a shield to investigations and as a tactical or strategic ploy. There are numerous legal opinions, bulletins, regulations, directives, guidelines, and administrative notices which address on a general level the issue of due process rights in an administrative investigation. Nevertheless, the Task Force has encountered differing views on the scope and applicability of due process rights. The Task Force believes that the Organization should ensure that all staff members are fully informed of their due process rights during an investigation.

78. It is accepted that the Task Force has an obligation to act fairly and ensure that the interviewee is given ample opportunity to respond to allegations. The Task Force has been advised by the Office of Legal Affairs that fairness does not entail the right of the staff member to have counsel's assistance during the interview. Furthermore, staff members are not entitled to disclosure of questions or documents in advance of the interview and are not entitled to know who made statements and allegations to the Task Force about them. All these demands have been raised in the course of the Task Force investigations with the assertion that not to accede to them would constitute a breach of due process. These demands show that there is a clear misunderstanding of how due process applies in the context of an administrative fact-finding investigation.

79. Fairness in an administrative fact-finding investigation dictates that prior to issuance of a final report, the subject be provided with a notice of the fact of the investigation, made aware of the allegations, and provided with an opportunity to reply to the allegations and present information, witnesses and documents. It should be noted that additional due process rights, which one would normally observe in the context of a judicial proceeding — such as the right to depose, confront or cross-examine persons who may have been asked to contribute to the investigation — are not present in an administrative fact-finding investigation. This is a reflection of the administrative, not adjudicatory, nature of fact-finding investigations.

VI. Plan for completion of the work of the Task Force

80. The Task Force was intended as an interim and ad hoc entity established to address a particular problem and therefore the current mandate is set to expire on 31 December 2007. However, at the time of the present report the Task Force has entered into a critical phase. The momentum and the skills and competencies of its staff should be maintained within the Organization in pursuing the completion of the investigation of remaining cases so as to achieve the ambition to unconditionally root out corruption in the Organization.

81. The Task Force has now turned its full attention to large contracts in the peacekeeping missions and other large-scale matters at Headquarters. It is important to note that investigations of large and complex procurement contracts are time-consuming. The cases which have been investigated and closed are illustrative. For example, the investigation of matters concerning the large food rations vendor mentioned above required one year to complete; the investigation of matters related to Mr. Bahel required four and a half months (with one third of the Task Force team dedicated to the case); the investigation into a United Nations vendor, six months; the investigation of Mr. Yakovlev and all related companies, 18 months; and the investigation on another vendor, one year (but requiring more work before completion owing to the lack of cooperation from several sources). The recently finalized investigations into fraud and corruption in MONUC and MINUSTAH needed seven months and one year, respectively.

82. Further, the investigation of such cases requires investigators with special skills, background, and experience with investigations of fraud, corruption and economic crimes. OIOS has been selective of the staff skills and competencies and has managed to assemble a highly specialized team that has proven itself, as evidenced by the activities described in the present report.

83. The Task Force is funded for the period until 31 December 2007 but it is unlikely that its pending investigations will be completed by the end of this year under the current arrangement. OIOS is considering proposing for the consideration of the General Assembly that the competence of the Task Force be incorporated into the overall OIOS capacity. This will be proposed in detail in the revised estimate for the OIOS 2008-2009 proposed regular budget as part of the actions for strengthening the investigations function within OIOS, taking into consideration the recommendations of the comprehensive review of the Investigations Division. The proposal recognizes the high risks in the procurement function, the existing caseload relating to procurement and the specialist skills required to successfully investigate these complex procurement contracts.

84. OIOS will also present its audit results on comprehensive procurement management and implementation of related reform at its sixty-second session.

(*Signed*) Inga-Britt **Ahlenius**
Under-Secretary-General for Internal Oversight Services

Annex

List of final reports completed during reporting period

Serial no	*Report reference no*	*Date issued*	*Report title*
1	PTF-R001/06	19 July 2006	Report on a Concerned United Nations Staff Member
2	PTF-R002/06	20 July 2006	Report on a Concerned United Nations Staff Member
3	PTF-R003/06	27 July 2006	TCIL/Thunderbird/PCP Investigation Report — Interim Report on Mr. Sanjaya Bahel
4	PTF-R004/06	23 August 2006	Investigation Concerning a United Nations Staff Member
5	PTF-R005/06	6 September 2006	Amended Report on a Concerned United Nations Staff Member — Interim Report on UNMIS
6	PTF-R006/06	13 September 2006	Investigation Report on a United Nations Staff Member
7	PTF-R007/06	2 October 2006	Investigation Report Concerning the Purchase of Runway Lights in UNMIS, a Concerned United Nations Staff Member, and a Former United Nations Staff Member
8	PTF-R008/06	14 November 2006	Interim Report on a Concerned United Nations Staff Member
9	PTF-R009/06	15 November 2006	Report on a Concerned United Nations Staff Member
10	PTF-R010/06	7 December 2006	Report on Two United Nations Vendors and a United Nations Staff Member
11	PTF-R011/06	19 December 2006	Interim Report on a Concerned United Nations Staff Member
12	PTF-R001/07	2 February 2007	Report on a United Nations Vendor and the United Nations Pouch Unit
13	PTF-R002/07	2 May 2007	Interim Report on Matters Concerning Former United Nations Staff Member Mr. Alexander Yakovlev and Associated Vendors
14	PTF-R003/07	6 June 2007	Interim Report on a United Nations Staff Member and UNOPS Procurement
15	PTF-R004/07	7 June 2007	Final Report on the Sale of the United Nations Postal Administration Philatelic Materials

Serial no	Report reference no.	Date issued	Report title
16	PTF-R005/07	20 June 2007	Interim Report on Two United Nations Staff Members
17	PTF-R006/07	28 June 2007	Report on Two United Nations Vendors
18	PTF-R007/07	28 June 2007	Report on a United Nations Vendor
19	PTF-R008/07	28 June 2007	Report on Two United Nations Vendors
20	PTF-R009/07	28 June 2007	Interim Report on Matters Concerning a Staff Member
21	PTF-R010/07	16 July 2007	Report on the Ground Fuel Procurements at MINUSTAH
22	PTF-R011/07	5 July 2007	Interim Report on MONUC Procurement and Five United Nations Procurement Officials

U.N. Ignores Its Own Procurement Ban

Monday , January 14, 2008

By George Russell

How serious is the United Nations about much-touted reform of its scandal ridden, multi-billion-dollar procurement system? To hear senior U.N. officials tell it, very serious.

But that was before FOX News uncovered the case of Corimec S.p.A., an Italian firm that sold the U.N. more than $30 million-worth of goods in 2006 (and many millions more in previous years), and which was suspended from the U.N.'s list of authorized vendors on March 15, 2007 for involvement in one of the highest-profile bribery scandals in the multi-national organization's history.

Little more than a month after the United Nations Procurement Service dropped Corimec from its vendor list, the flagship United Nations Development Programme (UNDP) decided to ignore the ban and spent more than $2.1 million on emergency housing kits from the firm. The reason: UNDP officials declared that as a legally separate U.N. agency, they were not bound to honor the Procurement Service sanction.

The fact that UNDP, a $5 billion development agency, chose to override the vendor suspension is particularly significant, because UNDP is the premier agency through which the U.N. operates on the ground in most of the 160 countries that it services. UNDP is also the lead agency in an experimental program known as "One U.N." that is ultimately intended, ironically enough, to rationalize the delivery and efficiency of U.N. services around the world.

The UNDP decision to disregard the blacklist inspired by the "serious" (UNDP's term) issue of the bribery of U.N. officials raises a host of questions about the actual status of the effort to clean up corruption within the organization's multi-billion-dollar procurement business, which was described by U.N. investigators in 2006 as wrapped in "systematic abuse," "a pattern of corrupt practices," and "a culture of impunity."

Chief among the questions is whether the U.N.'s left hand cares what the right hand is doing in an increasingly balkanized organization where the secretary-general, who appoints all the top officials, is apparently restrained from controlling their behavior afterwards.

That issue seems particularly acute now that the U.N. — which admits it has been badly tainted by corruption and inefficiency — has seen its overall budget grow at a spectacular clip as its various parts claim a special position in addressing the world's multiplying problems and demand billions in additional funding to do so.

Confidential UNDP records obtained by FOX News show that UNDP officials began considering the idea of using Corimec barely three weeks after the blacklisting was announced, based on a request from UNDP's Pakistan office. UNDP officials were fully aware of Corimec's suspension, and the reason for it.

At an April 4, 2007 meeting of the organization's Advisory Committee on Procurement (ACP), which must sign off on all purchases of more than $100,000, UNDP initially rejected the idea, largely because of the suspension, and dismissed arguments made in favor of working with the company as "not credible."

Yet on April 23, 2007, after a lengthy exchange of e-mails with UNDP officials in Pakistan, UNDP officials decided at another ACP meeting that despite their agreement that the U.N. "blacklist" was the result of the "serious offense" of bribery, they would override it because — in their view — they were not legally bound by punishment decisions that came from the bureaucracy ruled by Secretary-General Ban Ki-moon.

The minutes of both meetings have been obtained by FOX News.

• For minutes of the meetings, click here.

Having made their decision, the UNDP did not inform either the officials in the United Nations Procurement Service who had ordered the suspension in the first place, or Secretary-General Ban, who had promised to make the U.N. conform to the "highest ethical standard" when he took office in January 2007.

The main reason for UNDP's decision to ignore the procurement sanction was convenience, or "exigency," as officials put it, in the face of continuing UNDP efforts to alleviate a housing crisis caused by Pakistan's disastrous earthquake in October 2005.

Corimec had previously supplied UNDP in Pakistan with some $2.3 million-worth of the same kind of emergency housing units, officials told each other in a series of e-mails also obtained by FOX, and this had required the training of workers in Pakistan. Switching suppliers "will delay the procurement and will require training of the local staff," local officials said. There had also been quality control problems with a shipment from another supplier, the procurement group was told.

• To see the e-mails, click here.

In addition, UNDP field officials downplayed the significance of the offense that sparked the penalty. They relayed Corimec's contention that the actual bribery offense had taken place in 1993, and that the company had "changed the management and [that] many of its staff who were involved in unethical practices in the past have left."

In the e-mails obtained by FOX News, no further proof was offered for those contentions. (Corimec did not respond to a number of e-mail questions sent by FOX News.)

Finally, UNDP legal officials noted that under U.N. Secretariat rules, suspended companies are allowed to apply for reinstatement on the U.N. vendor list, and in recommending approval of the purchase also recommended that Corimec start seeking that approval.

That was apparently enough for UNDP procurement officials, who had rejected the convenience argument at their previous April 4 meeting as "not credible." Their April 23 approval notice contained a proviso that "vendor also shall be asked to take up their case with [U.N. anti-corruption investigators] for seeking clearance to conduct business with UN system."

As recorded in the minutes, the UNDP suggestion that Corimec seek forgiveness did not mention the fact — outlined in U.N. rules and regulations — that suspended companies remain on the blacklist for at least six months before seeking return to acceptable status. That period would not expire until more than four months after UNDP had completed its latest purchase.

The minutes of the UNDP procurement meetings contain no discussion of whether the continued use of Corimec might send a negative signal about U.N. attitudes toward corrupt behavior, especially in a case where a U.N. official had been suborned. And at no point in the minutes of the meetings did UNDP officials discuss informing the U.N. Secretariat of what they were doing.

When questioned by FOX News, a spokesman for U.N. Secretary-General Ban emphatically reinforced that point. Despite the sensitivity of the corruption issue, at no time, either before or after the decision to ignore the U.N. ban on Corimec, the spokesman said, did UNDP officials notify the secretary-general's office of the decision, a fact confirmed by another spokesman in that office.

Nor was the United Nations Procurement Service, which issued the ban, informed of the purchase decision. UNDP spokesman David Morrison, however, said that UNDP "verbally informed UNPS of the possible procurement at a meeting in the last week of March."

That was around the time a request to use Corimec came to UNDP headquarters — before the April 4 meeting, where the idea was rejected largely on the ground of the bribery suspension. It was also long before that rejection was reversed. Morrison added that "the decision to proceed was entirely UNDP's."

Corimec was originally suspended by the United Nations Procurement Service as a result of the bribe-taking career of Alexander Yakovlev, a Russian-born procurement officer whose secret Caribbean bank account

was discovered by FOX News in 2005. That discovery led to his resignation and subsequent arrest. Yakovlev pled guilty in a U.S. federal court to money laundering and corruption charges and has since been cooperating with U.S. federal investigators prior to sentencing.

Yakovlev's discovery came after more than a decade of soliciting and accepting bribes and steering contracts through rigged bids and manipulating technical criteria that dates back to 1993, and easily involved hundreds of millions of dollars. It led to the 2006 United Nations report that complained of the organization's "culture of impunity."

According to U.N. investigators, Corimec was involved in one of the earliest cases of Yakovlev's bribe-taking, along with a related firm, Cogim S.p.A. In subsequent years, Corimec did exceedingly well as a U.N. supplier. In 2004, the firm won contracts worth $18.3 million; in 2005, $34 million, and even in 2006, after Yakovlev's arrest, another $30 million.

The firm's involvement in bribe-taking was mentioned in a report by U.N. investigators in 2005. Its suspension in March 2007 came months after other firms named in the report were suspended or outright banned from further dealings with U.N. procurement.

Since Yakovlev was caught, the U.N. has made a number of high-profile efforts to clean up its procurement act, including formation of a Procurement Task Force of special investigators to examine corruption cases that the organization previously overlooked or ignored, plus a spate of new ones.

Late last year, the task force issued an omnibus report that uncovered fraud, waste and abuse in $619 million-worth of contracts, out of a sample of $1.4 billion. But that inspection covered little more than a quarter of the $5.5 billion-worth of U.N. contracts in its peacekeeping division alone. And the task force has faced heavy opposition, especially from developing countries, as a result of its work. Its one-year funding was renewed for this year only at the last minute, and only after an intense political battle in which the investigators were backed by the United States.

What the Corimec case underlines is that the U.N.'s effort to impose a rule of law on its contracting business, which is loudly supported in public by Secretary-General Ban, still has only a beachhead within the Secretariat itself, and much less than that within the sprawling array of U.N. funds, programs and agencies that make up the bulk of the U.N. "system," which is far bigger and spends many times more money than the $4.17 billion U.N. "core" biennial budget.

It is more than ironic that UNDP and its subsidiary, the Inter-Agency Procurement Services Organization (IAPSO), which say they are not bound by procurement penalty decisions made within the U.N. Secretariat, are key members of a new U.N. organization intended to increase efficiency through, among other things, "harmonization of procurement practices." The top management body is known as the Inter-Agency Procurement Working Group, established in June 2007— two months after UNDP decided to ignore the Corimec suspension ruling.

IAPSO also functions as the secretariat for the United Nations Global Marketplace, a newly created online supplier registry and contracting site that is intended as a central clearing house for procurement information.

The home page of the marketplace site (www.ungm.org) clearly states that "United Nations agencies participating in the UN Global Marketplace strictly enforce a policy of zero tolerance concerning unethical, unprofessional or fraudulent acts of UN contractors. Accordingly, any registered company that is found to have undertaken unethical, unprofessional or fraudulent activities will be suspended or forbidden from continuing business relations with the United Nations."

A list of 20 U.N. agencies is attached to the warning. It includes both UNDP and IAPSO, as well as the United Nations Procurement Service.

UNDP's position regarding suspended United Nations vendors closely tracks with its position regarding protections for U.N. whistleblowers, which has already provoked strong controversy within the U.N. and elsewhere.

In August 2007, the United Nations Ethics Commissioner Robert Benson — whose office was established in the wake of the same procurement scandals that led to Corimec's suspension — asked UNDP to allow him to investigate a "*prima facie* case of retaliation" against a UNDP whistleblower, Artjon Shkurtaj, who had called attention to irregularities in the organizations funneling hard currency to the North Korean regime of Kim Jong-Il, and the use of Korean government employees as UNDP staff in sensitive positions. Shkurtaj was subsequently fired.

Benson intended to create the first major U.N. precedent for system-wide whistleblower protection under new ethics rules, inspired in significant measure by procurement corruption scandals.

But UNDP took the position — which Benson acknowledged — that the U.N. whistleblower code did not apply outside the Secretariat, and rejected his appeal that investigation of the case would be "for the good of the United Nations." Secretary-General Ban himself ended up accepting UNDP's view, prompting protests from groups that helped to create the original legislation.

In the Corimec case, too, Ban has accepted the view that punishments meted out for corrupt activity by his Secretariat need not be followed by UNDP or other agencies, because they are legally separate. But in elaborate diplomatese, a spokesman from Ban's office not only emphasized UNDP's lack of communication regarding its decision, but underlined Ban's "strong feeling" that the U.N. should have a common policy toward transgressors.

"While the [United Nations Procurement Service] has no statutory authority over UNDP's procurement," the spokesman said, whenever that service imposes sanctions on a vendor, "an e-mail is sent out to the agencies and the information is posted" on a UNPS website. "This procedure was followed in the case of Corimec."

The spokesman added that "the secretary-general is very keen to continue to strengthen the work of UNPS as well as the work of the Procurement Task Force."

He also noted that the U.N. Procurement Service "has put forward a proposal to adopt a common position across the U.N. system regarding 'suspect' vendors. That proposal is currently being reviewed and studied."

That declaration, of course, amounts to an admission that something more like disarray exists in current U.N. procurement, and also that Secretary-General Ban has not yet been able to extend his rule of law across a system whose top officials he appoints.

In fact, in August 2007, the U.N. itself decided to begin the process of welcoming Corimec back into the vendor fold, largely to increase the number of vendors able to provide portable housing for its ballooning number of peacekeeping missions.

After considerable negotiation, Corimec last November signed an agreement on principles of compliance, and is scheduled next month to submit its own "Ethics and anti-Corruption Programme" for consideration by the U.N. Procurement Service and other U.N. bodies, including the ethics office.

After that, the suspension of Corimec might be lifted from what has been, apparently, the only place in the U.N. where the suspension for corrupt behavior applied.

George Russell is executive editor of FOX News Channel.

○